THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

MARCH 2020

Welcome to Creighton's March Bank CEO Report. March results from bank CEOs in 10 Rural Mainstreet States were positive, but with declining farmland prices and farm equipment sales. Surveys were conducted before onset of the coronavirus in the U.S. Ernie

Presidential Candidate Vows to Shift Tax Burden to "Rich" Shifting Income Tax Burden Has Not Reduced Income Inequality

Democrat presidential candidate Biden, in a modern day caricature of Franklin Delano Roosevelt, has proposed massive spending plans and taxes for what he terms the wealthy. Biden has proposed to raise taxes by $4 trillion with the top 1% of earners paying 74% of the added burden. This is despite the fact that the top 1% already pay an average federal income tax rate that is approximately seven times that of the bottom 50% of wage earners.

His argument is twofold: First, the wealthy are not paying their fair share of federal taxes and second taxing the wealthy more heavily would reduce income inequality. He is wrong on both counts.

The latest federal income tax data show that the bottom 50% of wage earners pay 3.1% of the federal tax burden, while the top 10% (those earning over $145,000) pay 70.1% of the tax burden. Clearly his plan is an appeal to the majority of voters, but would worsen this disparity in the share of the burden paid by high income versus low income Americans. To paraphrase playwright George Bernard Shaw, if you tax Peter to pay Paul, you will never get any argument from Paul.

Over the past several decades, the U.S. tax code has shifted the federal income tax burden from low income to high income workers while income inequality has risen. Using the standard inequality measure the Gini Coefficient with higher readings indicating greater income inequality, the U.S. Gini Coefficient climbed from 0.43 in 1990 to 0.49 in 2018. The reading for 2018 represented the greatest degree of income inequality recorded in the U.S. During this time of rising income inequality, the share of federal income taxes paid by the bottom 50% of earners declined from 5.8% in 1990 to 3.1% in 2018.

MAINSTREET RESULTS

Rural Mainstreet Index Weakens for February: Trade Deals Push Economic Confidence to Seven-Year High

March Survey Results at a Glance:

- Overall index remained above growth neutral, but declined from January's solid reading.
- The signing of USMCA and the Phase 1 trade agreement with China boosted the monthly economic confidence index to a seven-year high.
- Over the past four years, average annual cash rents on nonpasture farmland declined by only 1.5% to $218.
- Over the past year, the percentage of bank CEOs reporting an upturn in farm loan rejections declined from 30.3% to 3.1%.
- On average, bank CEOs reported that 17.3% of farmland purchases were cash sales. This is down from 22.2% recorded five years ago.
- Approximately four in 10 bankers indicated that their banks had restructured farm loans due to a weak farm economy.

Tables 1 and 2 summarize the survey findings. Next month's survey results will be released on the third Thursday of the month, April 16.

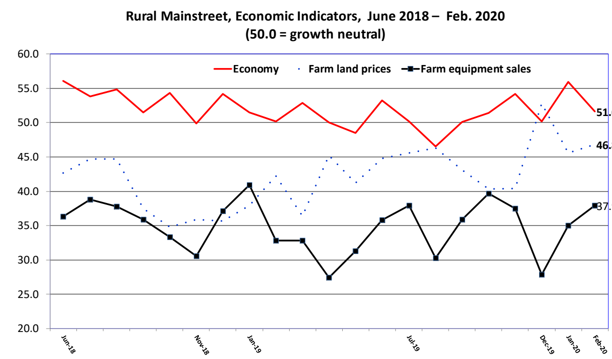

Table 1: The Mainstreet Economy	Feb '18	Jan '20	Feb '20
Area Economic Index	50.2	55.9	51.6
Loan volume	71.3	48.5	50.0
Checking deposits	40.9	76.5	60.9
Certificate of deposits	47.0	60.3	50.0
Farm land prices	42.2	45.6	46.8
Farm equipment area sales	32.8	35.0	37.9
Home sales	50.0	59.1	58.1
Hiring in the area	60.6	61.8	57.8
Retail Business	48.4	45.6	46.9
Economy 6 months from now	48.5	50.0	58.3

Table 2: The Rural Mainstreet Economy, February 2020

		Percentage of bankers reporting			
Which of the following has been your bank's response to weak farm income?	No change	Increased rejection rates	Reduced average loan size	Increased collateral requirements	Restructured loan terms
	25.0%	3.1%	6.3%	25.0%	40.6%
		Percentage of bankers reporting			
What is the average annual cash rent per acre for cropland (not pasture) in your area?	Below $100	$100 - $199	$200 - $299	$300 - $399	
	9.7%	16.1%	71.0%	3.2%	
		Percentage of bankers reporting			
What percent of farmland purchases in your area do you estimate are cash sales (not financed)?	Less than 5%	5% - 10%	10% - 19%	20% - 32%	Over 33%
	21.9%	25.0%	21.9%	12.5%	18.7%

MAIN$TREET ON YOUR $TREET

The Creighton University Rural Mainstreet Index (RMI) declined in February, but remained above growth neutral. This the sixth straight month the reading has moved 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.

Overall: The overall index for February declined to 51.6 from 55.9 in January.

Due to weak farm income, 40.6% of bankers reported that their banks had restructured loans while only 3.1% indicated that their banks had rejected a higher percentage of farmland loans. Approximately, one-fourth of bankers indicated no change in lending practices.

Farming and ranching: After moving above growth neutral in December, the farmland and ranchland-price index has fallen below growth neutral for two consecutive months. Even so, February's reading improved slightly to 46.8 from January's 45.6. This is the 74th time in the past 75 months that the index has been below growth neutral.

On average, bankers reported annual cash rents for nonpasture farmland of $218 per acre. This is down by only 1.5% from the reading recorded four years ago.

Banking: : Borrowing by farmers remained weak for February. The borrowing index rose to 50.0 from 48.5 in January, which was its lowest level since February 2013. The checking-deposit index tumbled to 60.9 from January's 76.5, while the index for certificates of deposit and other savings instruments plummeted to 50.0 from 60.3 in January.

This month bankers were asked what percentage of farmland purchases were cash sales. On average, bank CEOs reported that 17.3% of farmland purchases were cash sales. This is down from five years ago when bankers indicated that 22.2% of farmland sales were cash sales.

Hiring: The employment gauge dipped to a still solid 57.8 from January's very healthy 61.8. Despite the ongoing trade war and weaker manufacturing in rural areas, Rural Mainstreet businesses continue to hire at a solid pace.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, increased to a healthy 58.1 from January's weak 50.0. February's reading is the highest recorded since June 2013.

The signing of the Phase 1 trade agreement with China and the USMCA boosted economic confidence across the region with expectations of higher international agriculture sales. The last time Creighton recorded economic confidence this high was when grain prices were double today's values in 2013.

Home and retail sales: The home-sales index slipped to a still healthy 58.1 from January's 59.1. The retail sales index for February increased to 46.9 from 45.6 in January.

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 February fell to 51.0 from January's 56.2. The farmland and ranchland-price index rose to 46.2 from 45.3 in January. Colorado's hiring index for February plummeted to 50.4 from 62.2 in January. Over the past 12 months rural areas in Colorado have experienced job losses of minus 0.8% compared to a stronger 2.4% for urban areas of the state.

ILLINOIS

The February RMI for Illinois declined to 56.6 from 58.1 in January. The farmland-price index advanced to 48.1 from January's 45.9. The state's new-hiring index decreased to 67.2 from last month's 72.2. Over the past 12 months rural areas in Illinois have experienced job gains of 1.9% compared to a weaker 0.6% for urban areas of the state

IOWA

The February RMI for Iowa sank to 50.1 from January's 56.1. Iowa's farmland-price index inched higher to 45.9 from January's 45.3. Iowa's new-hiring index for February slumped to 47.7 from January's 57.2. Over the past 12 months rural areas in Iowa have experienced job losses with employment growth at minus 1.2% compared to a stronger addition of 0.7% for urban areas of the state.

KANSAS

The Kansas RMI for February declined to 54.0 from January's 57.0. The state's farmland-price index sank to 44.3 from 45.6 in January. The new-hiring index for Kansas declined to 59.4 from 64.2 in January. Over the past 12 months rural areas in Kansas have experienced job additions of 0.8% compared to a stronger 1.8% for urban areas of the state.

MINNESOTA

The February RMI for Minnesota improved to 58.3 from January's 57.6. Minnesota's farmland-price index improved to 47.4 from January's 45.8. The new-hiring index for February sank to 60.9 from January's 68.5. Over the past 12 months rural areas in Minnesota have experienced job growth of 0.2% compared to job gains of 0.1% for urban areas of the state.

MISSOURI

The February RMI for Missouri advanced to 51.5 from January's 48.4. The farmland-price index climbed to 46.3 from January's 45.2. Missouri's new-hiring index for February was a tepid 51.7, down from January's 55.9. Over the past 12 months rural areas in Missouri have experienced no job gains compared to an addition of 0.7% for urban areas of the state.

NEBRASKA
The Nebraska RMI for February sank to 48.3 from January's 49.1. The state's farmland-price index rose to 45.3 from last month's 44.8. Nebraska's new-hiring index slumped to 42.3 from January's 45.8. Over the past 12 months rural areas in Nebraska lost jobs at a rate of minus 1.0% compared to a gain of 2.8% for urban areas of the state.

NORTH DAKOTA
The North Dakota RMI for February sank to 51.7 from 56.0 in January. The state's farmland-price index increased to 46.4 from 45.2 in January. The state's new-hiring index softened to 52.4 from January's 56.7. Over the past 12 months rural areas in North Dakota have experienced a job growth of 0.4% compared to 0.7% for urban areas of the state.

SOUTH DAKOTA
The February RMI for South Dakota remained above growth neutral for the month, increasing to 57.8 from January's 57.4. The state's farmland-price index climbed to 47.6 from January's 45.7. South Dakota's new-hiring index slipped to a strong 63.5 from January's 67.2. Over the past 12 months rural areas in South Dakota have experienced job growth of 1.3% compared to 0.8% for urban areas of the state.

WYOMING
The February RMI for Wyoming slumped to 48.2 from January's 55.7. The February farmland and ranchland-price index sank to 44.2 from 45.1 in January. Wyoming's new-hiring index tumbled to 41.9 from January's 54.6. Over the past 12 months rural areas in Wyoming have lost jobs at a rate of minus 1.7% as urban areas lost employment at the rate of minus 0.2%.

THE BULLISH NEWS

- Both Creighton's and the U.S.'s Purchasing Management Indices (PMI) for February were positive, but were taken before the onset of the coronavirus in the U.S.
- The U.S. economy added a much stronger than expected 273,000 jobs in February as hourly wages ticked up an ok 3.0% over the past 12 months.

THE BEARISH NEWS

- The Case-Shiller U.S. Home Price covering all nine U.S. census divisions, for 2019 expanded by 3.5%, its slowest pace since 2012.
- In Creighton's February survey of manufacturers in 9 Mid-American states, fully 40% of supply managers reported negative impacts from the coronavirus. Approximately 27% indicated that the coronavirus had forced their firm to cease or reduce international buying. Roughly 24% stated that the coronavirus had pushed their firm to switch to domestic vendors for certain inputs.
- Creighton's Mid-American employment gauge fell below growth neutral for the fifth time in the last seven months.
- As a measure of soaring risks in the U.S. economy from the coronavirus, the yield on the 10-year U.S. Treasury bond sank to record lows in March.
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OECD Outlook. "CORONAVIRUS: THE WORLD ECONOMY AT RISK." "The coronavirus (COVID-19) outbreak has already brought considerable human suffering and major economic disruption. Output contractions in China are being felt around the world, reflecting the key and rising role China has in global supply chains, travel and commodity markets. Subsequent outbreaks in other economies are having similar effects, albeit on a smaller scale. Growth prospects remain highly uncertain.

- On the assumption that the epidemic peaks in China in the first quarter of 2020 and outbreaks in other countries prove mild and contained, global growth could be lowered by around ½ percentage point this year relative to that expected in the November 2019 Economic Outlook.
- Accordingly, annual global GDP growth is projected to drop to 2.4% in 2020 as a whole, from an already weak 2.9% in 2019, with growth possibly even being negative in the first quarter of 2020.
- A longer lasting and more intensive coronavirus outbreak, spreading widely throughout the Asia-Pacific region, Europe and North America, would weaken prospects considerably. In this event, global growth could drop to 1½ per cent in 2020, half the rate projected prior to the virus outbreak."

FROM GOSS: (March 2020):): I expect **Annualized GDP growth to be negative for Q1, 2020. **The annualized Consumer Price Index to move below 1% in the first half of 2020. **The Federal Reserve Open Market Committee (FOMC) to reduce short-term interest rates on March 18 by 50 basis points (½%).

KEEP AN EYE ON

- **ISM and Creighton's PMIs for January.** On April 1, the Institute for Supply Management and Creighton University release their surveys of supply managers in the U.S. and Mid-America, respectively. This is an early reading of manufacturing growth. This will be one of the first indicators of the impact of the coronavirus.
- **BLS's jobs report.** On April 3, the BLS will report job gains and the hourly wage value for March. This will be the first snapshot of the employment impact of the coronavirus.
- **Yield on 10-Year U.S. Treasury bond.** Find instantaneously, at https://finance.yahoo.com. Watch for this yield to rise back above 1.5% to signal coronavirus impacts waning. Right now, that yield is pointing to soaring risks and a potential U.S. recession.

BANKER READING ROOM

Regulators pledge assistance to banks affected by coronavirus "Five federal financial agencies and a trade group for state banking regulators have committed to provide "appropriate regulatory assistance" to banks whose customers may be harmed by the coronavirus outbreak, as U.S. markets tumbled in response to the threat the virus poses to the economy. The Federal Reserve, the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp., the Consumer Financial Protection Bureau, the National Credit Union Administration and the Conference of State Bank Supervisors in a joint statement urged financial institutions to meet the needs of customers. "Regulators note that financial institutions should work constructively with borrowers and other customers in affected communities," the agencies said in a news release Monday. "Prudent efforts that are consistent with safe and sound lending practices should not be subject to examiner criticism."
https://tinyurl.com/t6q8n7r.

STATISTIC OF THE MONTH

1/2% . On March 9, as fears of the economic impact of the coronavirus skyrocketed, the yield (interest rate) on the 10-year U.S. Treasury bond plummeted to one-half of one percentage point as investors sought the safety of U.S. government bonds. That is, investors were so scared they were willing to accept an inflation-adjusted rate of return of -1.5% rather than invest in U.S. stocks.

GOSS EGGS
(Recent Dumb Economic Moves)

In December 2018, the U.S. Federal Reserve raised short-term interest rates to a range between 2.25% and 2.50%. Recognizing their mistake, the rate setting committee of the Fed (the FOMC) reduced rates by 1.25% since then and will likely reduce rates by another ½% on March 18.

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