THE MAINSTREET ECONOMY REPORT

"A monthly survey of community bank CEOs"

May 2019

Politicians Pander to Education Bureaucracy: Student Loan Forgiveness Will Boost Administration Growth

Senator Elizabeth Warren's campaign for the presidential nomination of the Democrat Party took a turn from theatre to the absurd as she proposed to wipe out student debt. Under her plan, up to $50,000 in student loan debt would be completely erased for Americans with a household income under $100,000. Instead of forgiving student loans, a more equitable approach is to require colleges and universities to share the burden of these loan defaults instead of placing it on the taxpayer.

Over the last 10 years, U.S. student debt has ballooned by 163.9 percent, or almost five times the pace of growth of the overall economy. These "loans," which now amount to $1.5 trillion or $33,000 for each of the 44 million student borrowers, have enabled colleges to raise tuition at a rate almost three times that of overall consumer prices over the same decade.

What has been the outcome from higher tuition stimulated by soaring student debt? Not instructional support. Over the last five years, the number of college administrators has expanded at a pace more than three times that of college professors. For example, the University of Michigan has added almost 100 diversity administrators. Colleges have not only exploded the number of administrators, they have expanded the bureaucracy to the point where the 2018 average salary of college administrators was 35.7% above that of college faculty members. Ultimately, a high share of the benefits of student loan forgiveness programs will incentivize higher tuition which will result in even more more bloat in college bureaucracy.

MAINSTREET RESULTS

April Survey Results at a Glance:

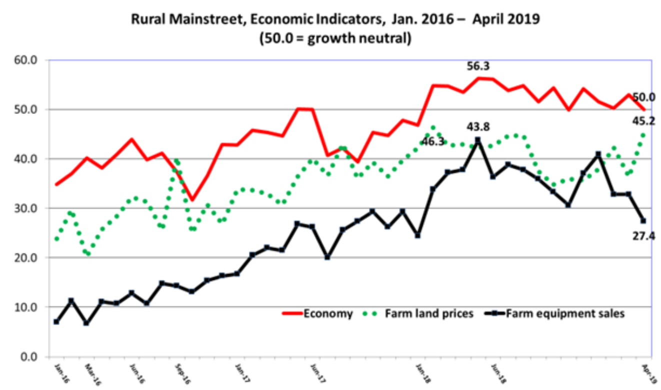
- For the fifth straight month the overall index has remained at or above 50.0. More than one-fifth of bankers, or 21.9 percent, expect an increase in farm loan defaults stemming from recent floods.
- Farm loans soared to their highest level since initiation of survey in 2006. Approximately 43.8 percent of bankers reported that recent floods have had a negative impact on the local economy.

The Creighton University Rural Mainstreet Index (RMI) for April stood at growth neutral for the month. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the RMI has now remained at, or above, growth neutral 50.0 for five straight months.

Overall: The overall index slipped to 50.0 from 52.9 in March. Since falling below growth neutral in November of last year, the overall RMI has risen above the growth neutral value. The index ranges between 0 and 100 with 50.0 representing growth neutral.

Our surveys over the last several months indicate the Rural Mainstreet economy is expanding outside of agriculture. However, this month, 43.8 percent of bank CEOs indicated that the recent floods were having a negative impact on their local economy.

Table 1: The Mainstreet Economy	Apr 2018	Mar 2019	Apr 2019
Area Economic Index	53.5	52.9	50.0
Loan volume	68.7	76.7	81.3
Checking deposits	56.0	42.4	50.0
Certificate of deposits	45.3	47.1	50.1
Farm land prices	42.9	36.4	45.2
Farm equipment area sales	37.8	32.8	27.4
Home sales	57.1	52.9	59.4
Hiring in the area	64.0	65.7	59.7
Retail Business	53.6	48.5	48.4



As detailed by Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa, "The recent flood event has been devastating to southwest Iowa and eastern Nebraska. It has been a very frustrating process for homeowners, farmers and other businesses who have been unable to get into their homes or businesses because safety issues continue to be a concern."

Farming and ranching: The farmland and ranchland-price index for April rose to 45.2, its highest level since February of last year, and up from March's 36.4. This is the 65th straight month the index has remained below growth neutral 50.0.

The April farm equipment-sales index sank to 27.4 from March's 32.8. This marks the 68th straight month that the reading has fallen below growth neutral 50.0.

Bankers were asked which farmers sustained the greatest economic damages from the floods in their area. Of bankers reporting farm flood damage, approximately one-half indicated grain farmers incurred the greatest economic damage, while 40 percent indicated the greatest flood damage was sustained by livestock operators. The remaining 10 percent indicated the greatest flood damage was sustained by farm residences.

According to bank CEO Winum, "Short term it is important that Congress get past all the politics and pass a comprehensive disaster relief bill that allows people to make decisions. For the long-term viability of impacted homeowners, farmers and businesses, the commitment to rebuild our levees and re-evaluate flood control priorities going forward will ultimately determine whether communities and businesses can be confident that this event will never happen again."

Banking: Borrowing by farmers for April surged as the borrowing index climbed to 81.3, a record high, from March’s high 76.7. The checking-deposit index increased to 50.0 from March’s 42.4, while the index for certificates of deposit and other savings instruments rose to 50.1 from 47.1 in March.

In terms of financial stress for farmers, more than one-fifth, or 21.9 percent, expect recent floods to increase farm loan defaults. On the other hand, 78.1 percent expect floods to have little or no impact on farm loan defaults.

Hiring: The employment gauge slipped to a still healthy 59.4 from March’s 65.7. Despite weak farm commodity prices and farm income, Rural Mainstreet businesses continue to hire at a solid pace. Over the past 12 months, the Rural Mainstreet economy added jobs at a 0.5 percent pace compared to a higher 0.9 percent for urban areas of the same 10 states.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, improved to 50.0 from March’s anemic 45.7, indicating a subdued economic outlook among bankers.

March floods, tariffs, trade tensions, and anemic farm income negatively influenced the economic outlook of bank CEOs.

Home and retail sales: The home-sales index increased to a healthy 59.4 from 52.9 in March. The retail sales index for April dipped slightly to 48.4 from 48.5 in March.

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.

MAIN$TREET ON YOUR $TREET

COLORADO

Colorado’s Rural Mainstreet Index for April fell to 51.6 from 54.5 in March. The farmland and ranchland-price index rose to 45.6 from March’s 36.8. Colorado’s hiring index for April declined to 61.6 from March’s 67.1 .

ILLINOIS

The April RMI for Illinois sank to 44.2 from 46.8 in March. The farmland-price index expanded to 43.6 from March’s 34.8. The state’s new-hiring index plummeted to 41.9 from last month’s 59.1.

IOWA

he April RMI for Iowa improved to 51.5 from March’s 50.2. Iowa’s farmland-price index climbed to 44.4 from March’s 35.7. Iowa’s new-hiring index for April slumped to 50.3 from 55.7 in March.

Regarding recent floods in the state, Larry Winum, CEO of Glenwood State Bank in Glenwood, reported, “Now is the time for our Federal legislators, USACE, FEMA, and all levee districts to come together and develop a comprehensive plan for our levee systems. We have been discussing this for years, now we have no excuse not to get something done permanently.”

KANSAS

The Kansas RMI for April sank to 47.6 from March’s 50.5. The state’s farmland-price index improved to 44.5 from 35.7 in March. The new-hiring index for Kansas declined to 51.1 from 56.5 in March.

MINNESOTA

The April RMI for Minnesota slipped to 49.1 from March’s 52.0. Minnesota’s farmland-price index climbed to 44.9 from 36.1 in March. The new-hiring index for April declined to 55.0 from March’s 60.4.

MISSOURI

The April RMI for Missouri fell to 44.6 from 47.5 in March. The farmland-price index for the state increased to 43.7 from March’s 34.9. Missouri’s new-hiring index for April slumped to 43.1 from March’s 48.6.

NEBRASKA

The Nebraska RMI for April fell to 47.9 from 50.8 in March. The state’s farmland-price index rose to 44.6 from last month’s 35.8. Nebraska’s new-hiring index declined to 51.8 from March’s 57.3.

NORTH DAKOTA

The North Dakota RMI for April fell to 55.0 from March’s 57.9. The state’s farmland-price index improved to 46.5 from 37.7. The state’s new-hiring index declined to 70.7 from 76.1 in March.

SOUTH DAKOTA

The April RMI for South Dakota remained above growth neutral but fell to 51.3 from March’s 54.2. The state’s farmland-price index climbed to 45.5 from March’s 36.7. South Dakota’s new-hiring index declined to 60.8 from 66.2 in March.

WYOMING

The April RMI for Wyoming advanced to 55.9 from March’s 55.1. The April farmland and ranchland-price index advanced to 45.7 from March’s 37.0. Wyoming’s new-hiring index decreased to 63.4 from 68.8 in March.

urban areas in the state increased jobs by 0.9 percent

THE BULLISH NEWS

- The U.S. economy added 263,000 jobs in April and the unemployment fell to a 50-year low 3.6%.
- The U.S. economy picked up steam in the first quarter 2019 with GDP growth at 3.2%, up strongly from 2.2% in Q4, 2018.

THE BEARISH NEWS

- About 40% of the nation's top 50 markets, based on the number of homes, were overvalued in March, according to a new report from CoreLogic, which defines an overvalued market as one in which prices are at least 10% higher than the long-term, sustainable level.
- According to the Case-Shiller home price index for February indicated the slowest growth in more than 6 years.

WHAT TO WATCH

- **Case-Shiller Home Price Index for March.** Released by S&P Corelogic on May 28. Year-over-year price growth below 3% will be another bearish signal for the housing market.
- **Consumer Price Index (CPI) for May.** The U.S. Bureau of Labor Statistics (BLS) will release the CPI for May on June 12. Year-over-year growth below 2.0% will bullish for bond prices (lower yields).
- **Jobs.** On June 7, the BLS releases its jobs report for May. Job additions above 150,000 with year-over-year wage gains between 3.3% and 3.6% will signal a "goldilocks economy."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

Democrat candidate for the U.S presidency, Beta O'Rourke, recently announced his own $5 trillion Green New Deal which included "National service grants to mobilize a new AmeriCorps generation to deploy clean energy, plant trees on marginal land, and build more resilience." He proposes to pay for this by what he calls "fixing the tax code" to insure wealthy pay their fair share of taxes. He fails to mention that the top 10% of income earners already pay 70% of all income taxes.

THE OUTLOOK

National Association of Business Economics (NABE)
APRIL SUMMARY: Sales and Profit Margins Improve in the First Quarter; NABE Panel Finds Recent Tariffs Are Not Positive for Business. "The net impact of tariffs on American companies is not positive, and the negative impacts are especially noted within the goods-producing sector," added NABE President Kevin Swift, CBE, chief economist, American Chemistry Council. "A year after the U.S. first imposed new tariffs on its trading partners in 2018, the recent tariffs have negatively affected more than one-fourth of respondents' firms. Only 1% of respondents —those from goods-producing firms—indicate tariffs have had some positive impact on business conditions at their firms. "In response to trade concerns, panelists from goods-producers all report their firms had made changes in sourcing, supply chains or other practices. In contrast, about three out of four respondents in other sectors had not made any changes. "Regarding monetary policy, panelists generally see the Federal Reserve's pause in raising short-term interest rates as being favorable to business conditions at their firms."

Goss: I expect

- Annualized GDP growth of 2.1% for Q2, 2019.
- U.S. year-after-year wage increases to range between 3.6% and 3.9%. Getting a bit too high for the Fed to continue to sit on the sidelines.
- Year-over-year increase in U.S. housing prices to fall below 4% next month (and to continue to drop).

BANKER READING ROOM

INDUSTRIAL LOAN COMPANIES: CLOSING THE LOOPHOLE TO AVERT CONSUMER AND SYSTEMIC HARM March 2019.

A loophole in the Bank Holding Company Act allows commercial companies and fintech companies to own or acquire industrial loan companies (ILCs) chartered by Utah and a handful of other states without being subject to federal consolidated supervision, leaving a dangerous gap in safety and soundness oversight.

ILCs are the functional equivalent of full-service banks. Commercial company ownership of ILCs will effectively combine banking and commerce, contrary to long standing American economic policy. Federal law prohibits all other full-service banks, whether federally or state chartered, from being owned by commercial companies.
https://tinyurl.com/y3wray8x

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