THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

OCTOBER 2020

Welcome to Creighton's October Bank CEO Report. September's results from bank CEOs in 10 Rural Mainstreet States moved slightly higher from August's reading, and well above May's record low, with declining farmland prices and farm equipment sales. Ernie

Read Biden's Lips: "More New Taxes": What Is a Fair Share of Taxes?

In an effort to bolster the likelihood of his election, presidential candidate, George H.W. Bush proclaimed "Read my lips, no new taxes" at the 1988 Republican National Convention. In sharp contrast, 2020 Democrat presidential hopeful, Joe Biden essentially shouted, "Read my lips, more new taxes." Biden argues that the U.S. economy needs more spending, and more taxes.

He bases his tax hike plan on three factors or allegations: 1) the Trump 2017 tax cuts hurt the economy, 2) high income earners should pay a greater and a "fairer" share of taxes, and 3) the U.S. economy needs more than $5 trillion in additional federal taxes over a decade to pay for his proposed new spending programs. Are Biden's assertions accurate?

1. **Trump 2017 tax cuts hurt economy**. Biden and his team allege that the December 2017 tax cuts reduced tax collections to levels jeopardizing growth with consequent massive fiscal deficits. However, for the two years after the tax cuts, total federal government receipts climbed by 5.3% compared to a much slower 2.2% for the two years prior to the 2017 tax cuts.

   As a result of the slashing of the corporate income tax rate, corporate tax collections fell by 11.4 in the two years after the 2017 cuts. However, this decline is smaller than the 25.4% fall for the two years prior to the 2017 cuts. Furthermore due at least in part to the corporate tax reductions, business investment soared by 11.9% for the subsequent two years in contrast to 4.7% for the two years preceding the 2017 tax cuts.

   Moreover, economic performance, as measured by GDP, accelerated after the tax cuts from 9.7% for 2017-19 compared to 5.9% for 2015-17. Furthermore, the Census Bureau reported in September that the median household income advanced by a massive 6.8% in 2019—the largest annual increase on record. **Biden is clearly wrong on this count.**

2. **High income earners do not pay their fair share**. According to the National Taxpayers Union, the top 1% of income earners in 2017 netted 21% of the nation's adjusted gross income, but paid 38% of U.S. personal income taxes. On the other hand, bottom half of income workers netted 11% of the nation's wages, but they paid only 3% of personal income taxes. In fact, fully 32% of filers in 2017 paid no income tax. **From the perspective of high income earners, Biden is likely wrong again.**

3. **Biden needs new tax collections**. The Wall Street Journal reported that Biden's spending proposal would "total $5.4 trillion in new spending over the next 10 years" based on an analysis by the Penn Wharton Budget Model, a nonpartisan group. "This is the largest proposed spending increase by a presidential nominee since George McGovern," says Kent Smetters, a Wharton economics professor who oversees the budget model project. **Biden is correct here.**

MAINSTREET RESULTS

Rural Mainstreet Index Climbs for September: Almost One-Fourth of Bankers Report Rural Economy Recovery

September Survey Results at a Glance:

- Overall index advanced for seventh straight month, but remained below growth neutral.
- Bank CEOs estimate farm income, including government support, to be down 1.5% from last year at this time.
- Almost one of four bankers, or 23.1%, reported that their local economies were back to pre-coronavirus levels.
- Approximately 38.5% of bankers reported that the CARES Act and the PPP programs provided crucial support for their local economy.
- Economic confidence climbed to its highest level since the onset of Covid-19.

Tables 1 and 2 summarize the survey findings. Next month's survey results will be released on the third Thursday of the month, Oct. 15.

Rural Mainstreet, Economic Indicators, June 2019 – Sept. 2020 (50.0 = growth neutral)

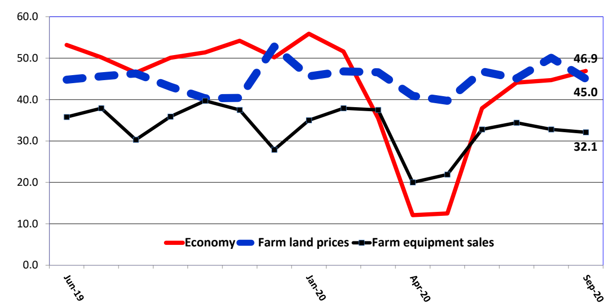

Table 1: The Mainstreet Economy	June-19	Aug-20	Sept-20
Area economic index	50.1	44.7	46.9
Loan volume	72.2	53.9	60.9
Checking deposits	54.2	78.9	76.6
Certificates of deposit and savings instruments	51.4	40.8	35.9
Farmland prices	43.1	50.1	45.0
Farm equipment sales	35.9	32.8	32.1
Home sales	57.1	68.9	75.0
Hiring	62.5	47.4	54.8
Retail business	52.8	38.2	43.8
Confidence index (area economy six months out)	42.9	44.6	50.0

Table 2: The Rural Mainstreet Economy, September, 2020					
	Percentage of bankers reporting				
	No Support	Little	Positive	Strong	Crucial
In terms of support for your local economy, the CARES Act and the Paycheck Protection Program provided:	0.0%	3.8%	38.3%	19.2%	38.7%
	Percentage of bankers reporting				
	Down -5% to -10%	Down -1% to -4%	Unchanged	Up 1% to 4%	Up 5% to 10%
Compared to last year at this time, income (including government support) for farmers in your area is:	26.9%	19.2%	15.4%	34.5%	4.0%
	Percentage of bankers reporting				
	No		Yes		
Is your overall local economy back to pre-coronavirus levels?	76.9%		23.1%		

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MAIN$TREET ON YOUR $TREET

Since falling to a record low in April of this year, the Creighton University Rural Mainstreet Index (RMI) has increased for five straight months, but still remains below growth neutral.

According to the September monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, September's reading represented the seventh straight month with a reading in a recessionary economic zone despite the increases.

Overall: The overall index for September increased to 46.9 from August's 44.7, but still well below growth neutral 50.0. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Recent improvements in agriculture commodity prices, federal stimuli and Federal Reserve record low interest rates have underpinned the Rural Mainstreet Economy. Bank CEOs estimated that farm income, including government support, was down only 1.5% from this time last year..

Almost one of four bankers, or 23.1%, reported that their local economies were back to pre-coronavirus levels.

Farming and ranching: After moving above growth neutral for only the second time in the past 81 months in August, the farmland price index once again fell below the threshold for September. The September reading sank to 45.0 from August's 50.0.

The September farm equipment-sales index slipped to 32.1 from 32.8 in August. This marks the 84th straight month the reading has remained below growth neutral 50.0.

Banking: Borrowing by farmers expanded for September, and at a faster pace than in August. The borrowing index expanded to 60.9 from August's 53.9. The checking-deposit index declined to 76.6 from 78.9 in August, while the index for certificates of deposit and other savings instruments slumped to 35.9 from 40.8 in August**.**

Hiring: Hiring for September exceeded layoffs and furloughs for the month. The new hiring index rose to 54.8 from August's 47.4. Even so, data from the U.S. Bureau of Labor Statistics indicate that nonfarm employment levels for the Rural Mainstreet economy are down by 222,000 (nonseasonally adjusted), or 5% compared to pre-COVID-19 levels. 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, improved to 50.0 from August's 44.6. COVID-19 related farm support payments and improving gain prices have boosted confidence offsetting pessimism from the impact of derecho in several of the survey states.

Approximately 38.7% of bankers indicated that government support via the CARES Act and the Paycheck Protection Program were crucial to their local economy. Only 3.8% reported that these two programs had little or no impact.

Home and retail sales: The home-sales index climbed to a strong 75.0 from August's 68.9. The retail -sales index for September increased to a frail 43.8 from August's 38.2. Higher unemployment and business closures linked to COVID-19 continue to harm the region's retailers.

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 September slipped to 38.1 from August's 38.3. The farmland and ranchland-price index fell to 38.6 from 47.9 in August. Colorado's hiring index for September plummeted to 21.2 from 48.9 in August. Compared to the same time last year, Colorado's Rural Mainstreet economy has lost 13.3% of its nonfarm employment representing 45,000 jobs.

Illinois: The September RMI for Illinois advanced to 43.6 from 42.9 in August. The farmland-price index fell to 41.3 from August's 46.1. The state's new-hiring index improved to 43.1 from 36.1 in August. Compared to the same time last year, Illinois' Rural Mainstreet economy has lost 8.1% of its nonfarm employment representing 390,000 jobs. Jim Eckert, president of Anchor State Bank in Anchor reported, "Harvest has just begun in our area. Early reports are that corn yields will be down somewhat from 2019 due to early drought conditions."

Iowa: The September RMI for Iowa dipped to 46.5 from August's 46.8. Iowa's farmland-price index slumped to 42.8 from 53.2 in August. Iowa's new-hiring index for September rose to 54.7 from 51.7 in August. Compared to the same month last year, Iowa's Rural Mainstreet economy has lost 6.8% of its nonfarm employment representing 47,000 jobs.

Kansas: The Kansas RMI for September increased slightly to 50.9 from August's 50.8. The state's farmland-price index sank to 45.0 from 52.7 in August. The new-hiring index for Kansas advanced to 72.4 from 54.8 in August. Compared to the same month last year, Kansas's Rural Mainstreet economy has lost 4.7% of its nonfarm employment representing 20,000 jobs.

Minnesota: The September RMI for Minnesota increased slightly to 42.2 from August's 42.0. Minnesota's farmland-price index fell to 40.7 from 45.7 in August. The new-hiring index for September rose to 37.7 from August's 32.8. Compared to the same month last year, Minnesota's Rural Mainstreet economy has lost 9.4% of its nonfarm employment representing 50,000 jobs.

Missouri: The September RMI for Missouri dipped to 42.3 from August's 42.7. The farmland-price index sank to 40.7 from 46.0 in August. The state's hiring gauge climbed to 38.1 from 35.5 in August. Compared to the same month last year, Missouri's Rural Mainstreet nonfarm economy has lost 4.6% of its employment representing 15,000 jobs.

Nebraska: The Nebraska RMI for September rose to 53.4 from 52.9 in August. The state's farmland-price index fell to 46.2 from last month's 51.1. Nebraska's new-hiring index soared to 82.3 from August's 58.5. Compared to the same month last year, Nebraska's Rural Mainstreet economy has lost 4.9% of its nonfarm employment representing 14,000 jobs.

North Dakota: The North Dakota RMI for September was unchanged from August's 43.3. The state's farmland-price index slumped to 41.2 from 46.3 in August. The state's new-hiring index increased to 41.9 from August's 37.8. Compared to the same month last year, North Dakota's Rural Mainstreet economy has lost 13.0% of its nonfarm employment representing 22,200 jobs.

South Dakota: The September Rural Mainstreet Index (RMI) for South Dakota climbed to 53.9 from August's 53.1. The state's farmland-price index declined to 46.1 from August's 51.2. South Dakota's September hiring index rocketed to 81.0 from 55.8 in August. Compared to the same month last year, South Dakota's Rural Mainstreet economy has lost 3.4% of its nonfarm employment representing 7,400 jobs.

Wyoming: The September RMI for Wyoming sank to 47.7 from August's 48.1. The September farmland and ranchland-price index fell to 43.4 from 48.7 in August. Wyoming's new-hiring index increased to 59.5 from August's 56.8. Compared to the same month last year, Wyoming's Rural Mainstreet economy has lost 7.1% of its nonfarm employment representing 15,000 jobs.

THE BULLISH NEWS

- The nation added 661,000 jobs and the unemployment rate declined to 7.9% even as the Census Bureau shed 34,000 temporary jobs.
- The sales of previously-owned housing rose to an annualized, seasonally adjusted 6,000,000 units in August, the fastest pace since December 2006.
- Purchasing management indices (PMI) for both ISM's national survey and Creighton's Mid-America were in a range indicating healthy manufacturing growth.
- Amazon announced that it would open 1,500 small warehouses in the nation's suburbs.

THE BEARISH NEWS

- Core retail sales fell 0.1% in August. Higher gasoline prices pushed overall retail sales up by 0.6%.
- The U.S. trade deficit for August climbed by 3.5%.
- The U.S. budget deficit hit an all-time high of $3 trillion for the first 11 months of fiscal 2020.

THE OUTLOOK

Goldman Sachs (September 11, 2020). Goldman Sachs has upgraded its forecasts for the US economy and now expects GDP to reach 35% in the third quarter of the year, making it by far the most bullish bank on Wall Street. Goldman Sachs is predicting US Q3 GDP to be 35% due to a better than expected August jobs report. *The bank said in a note on Thursday: "We upgraded our near-term growth forecasts based on the much stronger-than-expected August jobs report and the solid summer data more generally."**The US added 1.37 million jobs in August, higher than an expected addition of 1.35 million jobs. **The bank said data is pointing to higher real spending in August, another factor prompting its GDP upgrade. **Bloomberg economists are expecting US GDP to be 21% in Q3." **https://tinyurl.com/y4879x39**

FROM GOSS (September 2020): **The yield on U.S. long-term Treasury bonds, along with mortgage rates, to climb by as much ¼ % (25 basis points) by the end of 2020. **The October job additions will be healthy, but somewhat disappointing in comparison to September's. **Annualized and seasonally adjusted Q3 GDP growth will range between 14% to 15%.

KEEP AN EYE ON

- U.S. BEA's 3rd Quarter GDP report. On October 29, just in time for the presidential elections, the Bureau of Economic Analysis will release it third quarter GDP numbers. Expect 15% annualized and seasonally adjusted gain which will be good for Trump's reelection.
- ISM's Creighton's Mid-America PMIs. On November 2, ISM and Creighton release manufacturing survey results for October. Expect healthy values from both.
- Creighton's Rural Mainstreet report. On November 19th, Creighton releases its November survey of bank CEOs in rural areas of 10 states in the Rocky Mountains and Plains states.

STATISTIC(S) OF THE MONTH

96. Former President Jimmy Carter celebrated his 96th birthday on October 1, 2020. He has now become the longest-lived of all those to hold the nation's highest political office.

BANKER READING ROOM

"How Community Banks Can Lead in Weathering Natural Disasters" The coronavirus pandemic, hurricane season, and the wildfires on the West Coast, stand as prudent reminders of how critical disaster preparedness is not only for community banks, but for our communities at large. And while proper preparedness will never eliminate the risks of the threats our communities face, National Preparedness Month each September is a good time to review safeguards to improve operational resiliency and better weather the long-term impacts of these visible and invisible threats. As community banks look to shore up their operations here are a few tips to keep in mind to ensure resiliency.
(continued at **https://tinyurl.com/y3dqyydf**)

GOSS EGGS (Recent Dumb Economic Moves)

Los Angeles and New York political leaders continue to lead the nation in bad economic decisions. Disney this week announced layoffs of almost 30,000 jobs, much of those in California where the state's lockdowns restrict Disneyland's ability to reopen in Los Angeles. Not surprisingly the latest unemployment rates were 5.1% higher for closed-down Los Angeles than wide-open San Diego. Remarkedly, Covid-19 death rates per 1,000 in population were 1.67 for Los Angeles and 0.56 for San Diego.

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