

Welcome to Creighton's September Bank CEO Report covering August survey results. August's overall reading from bank CEOs in 10 Rural Mainstreet States declined slightly from July's strong reading with the healthiest farmland price growth since 2012 and rapidly expanding farm equipment sale. Ernie

### Only 4 of 10 U.S. Households Paid 2020 Federal Income Taxes: Burden Fell on Workers Making Over \$75,000

More than six out of ten U.S households paid no federal income taxes in 2020 due to declines in income, and boosts in government subsidies that wiped out tax liabilities. According to the Urban-Brookings Tax Policy Center, 106.8 million households escaped the federal income tax. This was up from 75.9 million in 2019. Brookings estimates that the number of families owing no federal income taxes for 2021 will decline only slightly to 101.7 million, or 57.1%, owing a net \$0.00.

And contrary to President's Biden's claim that high income workers are not paying their fair share, and should pay more, IRS 2019 filing data show the opposite. The 58 million workers with incomes below \$75,000 earned 17.1% of total U.S. taxable income, but paid only 10.2% of total income taxes. On the other hand, the four million workers earning more than \$200,000 made 46.3% of taxable income, but paid more than 48% of total income taxes.

Furthermore in 1979, the top one-fifth of income earners paid a tax rate which was approximately three times that of the bottom one-fifth of income earners. But 38 years later, the top one-fifth of income earners paid 20 times the tax rate of the bottom quintile of tax payers. Did shifting more the income tax burden on high income earners reduce income inequality over the period? Emphatically not!

Between 1979 and 2019, the degree of income inequality as measured by the U.S. Census Bureau's Gini Coefficient increased from 0.404 to 0.484 (a higher index indicates greater income inequality). Thus, not only has shifting the burden of income taxes from low income to high income households failed to reduce income inequality, it has reduced the incentive to increase earnings via higher education, higher hours worked or other work activities that benefit both the household and society. Accordingly, President Biden should reconsider his economic plan which punishes high income workers with a greater share of income tax burdens. Ernie Goss

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	Aug-20	July-21	Aug-21
Area economic index	44.7	65.6	65.3
Loan volume	53.9	53.0	53.0
Checking deposits	78.9	67.7	68.8
Certificates of deposit and savings instruments	40.8	32.3	34.4
Farmland prices	50.1	71.0	76.6
Farm equipment sales	32.8	67.4	64.7
Home sales	68.9	77.4	84.4
Hiring	47.4	67.7	70.3
Retail business	38.2	64.1	54.7
Confidence index (area economy six months out)	44.6	65.6	59.7

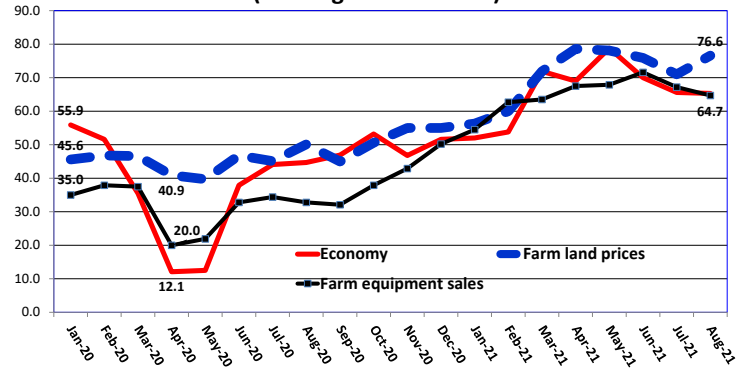
## MAINSTREET RESULTS

### Rural Mainstreet Growth Slows In August: Fewer Than 10% of CEOs Support \$3.5 Trillion Infrastructure Bill

#### August Survey Results at a Glance:

- Overall index remains in a range indicating strong growth for the month.
- Approximately 15.6% of bankers reported that continuing drought conditions are the greatest threat to banking operations over the next 12 months.
- Due to strong farm financial positions, 40.6% of bank CEOs see low loan demand as their bank's greatest challenge over the next 12 months.
- Only 9.4% of bankers support passage of the \$3.5 trillion infrastructure bill currently before Congress.

Rural Mainstreet, Economic Indicators, January 2020 – August 2021 (50.0 = growth neutral)



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

Table 2: The Rural Mainstreet Economy, August 2021

	Percentage of bankers reporting				
	Immediately	4 <sup>th</sup> Quarter '21	First half 2022	Second half 2022	Beyond 2022
When should the Federal Reserve begin reducing their monthly purchases of U.S. Treasury bonds and mortgage-backed securities (i.e., tapering)?	32.3%	25.8%	29.0%	12.9%	0.0%
	Percentage of bankers reporting				
	Inflation	Trade war With China	Drought	Low Interest rates	Low Loan Demand
What is the biggest economic challenge for agriculturally dependent community banks for next 12 months?	6.3%	9.4%	15.6%	28.1%	40.6%
	Percentage of bankers reporting				
	Passed In 2021	Rejected in 2021 Too much spending	Rejected in 2021 Too inflationary		
Congress is currently deliberating a \$3.5 trillion infrastructure bill. This bill should be:	10.0%	80.0%	10.0%		

### MAINSTREET ON YOUR STREET

For the ninth straight month, the Creighton University Rural Mainstreet Index (RMI) remained 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 August fell slightly to 65.3 from July's 65.6. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Approximately, 34.4% of bank CEOs reported that their local economy expanded between July and August.

Solid grain prices, the Federal Reserve's record-low interest rates, and growing exports have underpinned the Rural Mainstreet Economy. USDA data show that 2021 year-to-date agriculture exports are more than 25% above that for the same period in 2020. This has been a prime factor supporting the Rural Mainstreet economy.

**Farming and ranching:** For an 11th straight month, the farmland price index advanced significantly above growth neutral. The August reading expanded to 76.6 from July's 71.0. This is the first time since 2012-2013 that Creighton's survey has recorded 11 straight months of farmland prices above growth neutral.

Approximately 15.6% of bankers reported that continuing drought conditions were the greatest threat to their banking operations over the next 12 months.

The August farm equipment-sales index declined to 64.7 from 67.2 in July. Readings over the last several months represent the strongest consistent growth since 2012.

**Banking:** The August loan volume index was unchanged from July's 53.0. The checking-deposit index rose to 68.8 from July's 67.7, while the index for certificates of deposit, and other savings instruments increased to 34.4 from 32.3 in July.

Due to strong farm finances, 40.6% of bank CEOs see low loan demand as their bank's greatest challenge over the next 12 months.

Almost one third, or 31.3%, of bankers support immediately beginning the reduction (taper) of Federal Reserve buying of U.S. Treasury bonds and mortgage-backed securities. Another 25% think the Fed should begin the reduction or taper in the fourth quarter of 2021.

**Hiring:** The new hiring index rose to 70.3 from 67.6 in July. However, labor shortages continue to be a significant issue for Rural Mainstreet businesses.

Shawn Davis, CEO of CNB Bank & Trust in Carlinville, Illinois, said, "(There are) too many open jobs looking for employees. Several local restaurants closed due to no workers".

Even with labor shortages restraining growth, the region has recaptured the jobs lost to COVID-19.

**Confidence:** The confidence index, which reflects bank CEO expectations for the economy six months out, decreased for a third straight month to 59.7 from July's 65.6.

Rising COVID-19 infections, the turmoil in Afghanistan, and negative views of current infrastructure bills before Congress damaged the economic outlook of bank CEOs. Only 9.4% of bankers support passage of the \$3.5 trillion infrastructure bill currently winding through Congress.

Three of four bankers encourage Congress to reject the \$3.5 trillion infrastructure bill due to its unnecessary spending.

**Home and retail sales:** The home-sales index soared to a record high 84.4 from July's 77.4. The retail-sales index for August dropped to 54.7 from July's stout 64.1. "Healthy farm prices and federal spending are having very positive impacts on Rural Mainstreet retail sales," said Goss.

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 and launched in January 2006.

### Below are the state reports:

**Colorado:** Colorado's Rural Mainstreet Index (RMI) for August fell to 50.9 from July's 67.5. The farmland and ranchland-price index decreased to 68.0 from 71.9 in July. Colorado's hiring index for August declined to 62.9 from 68.7 in July. U.S. Bureau of Labor Statistics data indicate that Colorado's Rural Mainstreet nonfarm employment has expanded by 7.3% over the past 12 months.

**Illinois:** The August RMI for Illinois climbed to 78.0 from 71.2 in July. The farmland-price index expanded to 75.7 from 71.2 in July. The state's new-hiring index improved to 70.6 from 68.0 in July. U.S. Bureau of Labor Statistics data indicate that Illinois's Rural Mainstreet nonfarm employment has expanded by 7.4% over the past 12 months.

**Iowa:** The August RMI for Iowa dropped to a healthy 61.9 from 64.6 in July. Iowa's farmland-price index advanced to 71.1 from July's 67.8. Iowa's new-hiring index for August expanded to 66.0 from 64.6 in July. U.S. Bureau of Labor Statistics data indicate that Iowa's Rural Mainstreet nonfarm employment has expanded by 3.2% over the past 12 months.

**Kansas:** The Kansas RMI for August decreased slightly to 67.0 from 67.2 in July. The state's farmland-price index improved to 72.6 from July's 71.8. The new-hiring index for Kansas fell to 67.5 from 68.5 in July. U.S. Bureau of Labor Statistics data indicate that Kansas's Rural Mainstreet nonfarm employment has expanded by 4.0% over the past 12 months.

**Minnesota:** The August RMI for Minnesota soared to 81.5, a regional high, from 68.0 in July. Minnesota's farmland-price index grew to 76.7 from 72.2 in July. The new-hiring index for August declined to 71.6 from 73.1 in July. U.S. Bureau of Labor Statistics data indicate that Minnesota's Rural Mainstreet nonfarm employment has expanded by 7.4% over the past 12 months.

**Missouri:** The August RMI for Missouri slumped to 56.9 from July's 67.4. The farmland-price index fell to 69.7 from July's 71.9. The state's hiring gauge decreased to 64.6 from 68.6 in July. U.S. Bureau of Labor Statistics data indicate that Missouri's Rural Mainstreet nonfarm employment has expanded by 2.2% over the past 12 months.

**Nebraska:** The Nebraska RMI for August slipped to 69.4 from July's 69.7. The state's farmland-price index increased to 73.3 from last month's 73.0. Nebraska's new-hiring index sank to 68.2 from 74.1 in July. U.S. Bureau of Labor Statistics data indicate that Nebraska's Rural Mainstreet nonfarm employment has expanded by 4.4% over the past 12 months.

**North Dakota:** The North Dakota RMI for August climbed to 58.2 from July's 52.4. The state's farmland-price index rose to 70.0 from 64.4 in July. The state's new-hiring index advanced to 64.9 from July's 61.1. U.S. Bureau of Labor Statistics data indicate that North Dakota's Rural Mainstreet nonfarm employment has expanded by 2.5% over the past 12 months.

**South Dakota:** The August RMI for South Dakota strengthened to 74.4 from July's 69.8. The state's farmland-price index improved to 74.7 from 73.1 in July. South Dakota's August hiring index dropped to 69.5 from 74.6 in July. U.S. Bureau of Labor Statistics data indicate that South Dakota's Rural Mainstreet nonfarm employment has expanded by 5.9% over the past 12 months.

**Wyoming:** The August RMI for Wyoming increased to 62.1 from July's 61.3. The August farmland and ranchland-price index rose to 71.2 from 68.8 in July. Wyoming's new-hiring index expanded to 66.1 from July's 65.6. U.S. Bureau of Labor Statistics data indicate that Wyoming's Rural Mainstreet nonfarm employment has expanded by 3.6% over the past 12 months.

### THE BULLISH NEWS

- Initial filings for unemployment insurance for the third week in August fell to their lowest level since March 2020. Continuing claims also dropped to 2.75 million, their lowest level since pre-pandemic.
- The Case-Shiller home price index soared by 18.6% in June compared to 12 months earlier. Good news for home sellers, but obviously not for home buyers.
- The nation's inflation gauge (CPI), less food and energy, rose 0.3% in July. Not great, but down from 0.9% in June.

### THE BEARISH NEWS

- August job additions of 235,000 was a disappointment with 728,000 jobs expected. The unemployment rate did fall to 5.2%.
- The August wholesale inflation gauges from Creighton's and the national ISM's surveys of manufacturing supply managers remained in a range indicating excessive inflationary pressures.
- The U.S. budget deficit hit \$2.54 trillion for the first 10 months of this budget year. The deficit is on track to be second largest annual shortfall in U.S. history, behind only the most recent fiscal year that ended Sept. 30, 2020.

### THE OUTLOOK

**National Association of Business Economics. (August, 2021):** "NABE panelists' views are split on whether fiscal and monetary policies are 'too stimulative,' or 'about right'," said NABE President Manuel Balmaseda, CBE, chief economist, CEMEX. "While 49% of respondents believe current fiscal policy is 'too stimulative,' nearly as many—45%—indicate current policy is 'about right.' Similarly, a slight majority—52%—of panelists believes current monetary policy is too stimulative, compared to 47% who say it is about right. "Seventy-nine percent of respondents are in favor of employers requiring their employees to be vaccinated against COVID-19 before they return to the workplace," Balmaseda added. "In addition, 69% of panelists think that the federal government should provide a standard document that individuals can carry and certify that they are vaccinated against COVID-19." "Nearly two-thirds of respondents believe that the Federal Reserve will be able to achieve its goal of inflation averaging 2% over time," added Survey Chair Ilan Kolet, institutional portfolio manager, Fidelity Investments, "and more than half of respondents believe that inflation risks are to the upside. Almost three-fourths of the respondents believe the Fed should raise interest rates by the end of 2022." <https://tinyurl.com/keee6bzK>

**From Goss: (September 2021):** \*\*Since December 2020, the University of Michigan's expected inflation has risen from 2.5% to 3.4% in April. Despite this gain the yield on the 10-year U.S. Treasury bond has not moved above 1.65%. Why? Because the Federal Reserve is buying \$80 billion of U.S. Treasury bonds each month putting a lid on this yield. This means that investors cannot gauge the rate of inflation using this yield. A portion of the jump in inflation is transitory but a significant share is not. U.S. inflation (excluding the transitory portion) is approximately 3% - 3.5% (4.5% - 5.0% including transitory). Both well above the Fed's target.

### KEEP AN EYE ON

- **U.S. Inflation Report.** On September 14, the U.S. Bureau of Labor Statistics (BLS) releases its consumer price index (CPI) for August. Recent readings are signaling inflation well above the Federal Reserve's acceptable level (transitory or not!)
- **U.S. Jobs Report.** On October 8, the BLS releases its job numbers for September. Another weaker than expected reading (below 150,000) will push the Federal Reserve to delay their tapering of bond buying of mortgage backed securities (currently \$40 billion per month).
- **Case-Shiller Home Price Index.** On September 16, the U.S. Census Bureau releases its retail sales estimate for August. Another negative reading (like for July) will set off a bit of panic in DC.

### STATISTIC(S) OF THE MONTH

**\$6,000.** As a result of a shortage of new vehicles stemming from a lack of semiconductors, the average price of a new car soared by \$6,000 in August from the previous month to reach a record high of \$41,378 per vehicle according to research firm J.D. Power.

### BANKER READING ROOM

**Biden proposal would give the IRS access to your bank account.** “Tax law and federal budgets are inherently boring things, so it comes as no surprise that language is often slipped into those bills that would otherwise cause outrage if proposed individually. Like giving the IRS access to your personal and business bank account. The Biden Administration’s 2022 budget proposal — which claims to advance “equity across government” — included a provision that generally slipped under the radar, but would impose onerous new reporting requirements on community banks and raises privacy questions. The Independent Community Bankers Association reports that the proposal would require financial institutions to report information on customer bank accounts to the IRS. Currently, banks are only required to report deposits of \$10,000 or more, however, the proposal would require banks and other financial institutions to report to the IRS on the deposits and withdrawals of all business and personal accounts with a balance of more than \$600. The Kansas Bankers Association objected strongly to the proposed requirement and said flatly that they stand in opposition.” <https://tinyurl.com/4xcrk5s2>

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### GOSS EGGS (Recent Dumb Economic Moves)



President Biden plans to extend the reach of the IRS with an additional \$80 billion into enforcement. He claims this will raise \$700 billion in 10 years; the Congressional Budget Office (CBO) dismisses this estimate. As part of his plan, President Biden wants banks to file paperwork every year on gross inflows and outflows for personal and business accounts. What’s the cost to banks and to the collective privacy of this nation? To quote George Orwell in 1984, “It was a bright cold day in April, and the clocks were striking thirteen.” Grade=3.5 Goss Eggs.

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