

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

## High Tax States Lose Representation in Congress: 2017 Tax Law and Pandemic Reinforce Population Trends

Peter Rex, Founder and CEO of Rex Teams recently announced that, "I'm moving my business headquarters off the West Coast." We tried San Francisco and Seattle. "Both were wonderful in their own ways, especially in natural beauty and personal friendships. But both have become hostile to the principles and policies that enable people to live abundantly in the broadest sense."

Rex joins a parade of individuals and businesses that are relocating from high tax states to low tax states due to 1) 2017 Tax Law that eliminated the deductibility of state and local taxes and 2) Post Covid-19, companies allowing employees to work from locations of their choice, and 3) Individuals and businesses avoidance of large urban centers with higher crime rates and economic lockdowns. The accompanying table lists the 10 states experiencing the greatest population gains, and the 10 states suffering the largest population losses.

The global pandemic has further enhanced the economic prospects of the gaining states which experienced an average increase in insured unemployment rates between mid-March, and the end of August of 7.4% compared to a much higher average of 9.9% for the ten losing states. Many of the unemployed in high tax states will seek the more job friendly employment prospects in low tax states. Furthermore, the data show that the population gainers' average state and local tax rate was 7.82%, and the population losers' average state and local tax burdens was 9.5%.

Importantly, 7 of the 10 gaining states voted Republican in the last presidential election, and 7 of 10 losing states voted Democrat in the same election. In addition to invigorating the economies of low tax states, this migration will have the bonus impact of increasing the representation in Congress of destinations with lower state and local tax rates. Data from the table show that the ten states with the highest population gains collectively will add 7 Congressional Representatives, while the ten states with the largest population losses will lose 5 Congressional Representatives when reapportionment takes place post-2020 Census.

Population gainers	Change in Congress	State & local taxes as % PI
1. Arizona (net gain of 83,240 residents)	+1	8.25%
2. Texas (net gain of 82,569 residents)	+2	8.20%
3. Florida (net gain of 69,420 residents)	+2	6.82%
4. North Carolina (net gain of 66,991 residents)	+1	8.17%
5. South Carolina (net gain of 50,775 residents)	0	7.48%
6. Nevada (net gain of 47,596 residents)	0	8.39%
7. Washington (net gain of 46,549 residents)	0	8.32%
8. Colorado (net gain of 43,293 residents)	+1	8.40%
9. Georgia (net gain of 41,914 residents)	0	7.98%
10. Tennessee (net gain of 39,952 resident)	0	6.18%
<b>Average state &amp; local tax burden</b>		<b>7.82%</b>
Population losers	Change in Congress	State & local taxes as % PI
41. New York (net loss of 180,306 residents)	-1	12.28%
42. California (net loss of 156,068 residents)	-1	9.27%
43. Illinois (net loss of 114,154 residents)	-1	9.62%
44. New Jersey (net loss of 50,591 residents)	0	9.88%
45. Louisiana (net loss of 27,914 residents)	0	9.15%
46. Massachusetts (net loss of 25,755 residents)	0	8.76%
47. Maryland (net loss of 24,518 residents)	0	9.34%
48. Connecticut (net loss of 21,509 residents)	0	9.99%
49. Pennsylvania (net loss of 20,463 residents)	-1	8.53%
50. Michigan (net loss of 16,766 residents)	-1	8.27%
<b>Average state &amp; local tax burden</b>		<b>9.51%</b>

Notes: Minnesota & Ohio also losing 1 Congressional seat Sources:  
 1) population change <https://verifiedmovers.com/state>;  
 2) Change in Congressional Reps. By Goss, 3) State & Local Tax Burdens by WalletHub

## MAINSTREET RESULTS

### Rural Mainstreet Index Inches Up for August: Almost One-Half of Bankers Report Temporary Ethanol Shutdowns

#### August Survey Results at a Glance:

- Overall index advanced to a weak level and remained below pre-COVID-19 levels.
- Approximately 45.8% of bank CEOs with ethanol plants in their area reported temporary shutdowns. The remaining 54.2% reported ethanol production expanding at a slow pace.
- More than three of four bankers reported negative COVID-19 economic impacts on their local economy.
- Approximately one of six bank CEOs expect farm loan defaults to climb by an average of 15% over the next 12 months.
- On average, bankers estimated that farm loan defaults would rise by 5.3% over the next 12 months. This is up slightly from 5.0% recorded last month, and 4.8% registered one year ago.

Tables 1 and 2 summarize the survey findings. Next month's survey results will be released on the third Thursday of the month, September 17.

### Rural Mainstreet, Economic Indicators, June 2019 – August 2020 (50.0 = growth neutral)



	June-19	May-20	June-20
Area economic index	53.2	12.5	37.9
Loan volume	72.6	72.2	63.6
Checking deposits	50.0	86.1	77.3
Certificates of deposit and savings instruments	51.6	48.6	51.5
Farmland prices	44.8	39.7	46.8
Farm equipment sales	35.7	21.9	32.8
Home sales	69.4	48.6	57.8
Hiring	64.5	17.1	51.5
Retail business	58.1	11.1	28.8
Confidence index (area economy six months out)	53.3	22.1	43.8

	Percentage of bankers reporting			
	-0.9% to +0.9%	1% to 9%	10% to 20%	
Regarding farm loan defaults in your area over the next 12 months, what do you expect?	26.3%	57.9%	15.8%	
Thus far, what has been the impact of the coronavirus on your local economy?	Percentage of bankers reporting			
	Little or no impact	Negative	Significantly negative	
	23.7%	68.4%	7.9%	
Regarding the operation of ethanol plants in your area (for bankers with ethanol plants):	Percentage of bankers reporting			
	Plants are expanding at rapid pace	Plants are expanding at slow pace	Plants have temporarily shutdown	Plants have permanently shutdown
	0.0%	54.2%	45.8%	0.0%

### MAINSTREET ON YOUR STREET

The Creighton University Rural Mainstreet Index (RMI) increased slightly to a weak level from July's frail reading. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, August's reading represented the sixth straight month with a reading in a recessionary economic zone.

**Overall:** The overall index for August increased slightly to 44.7 from July's 44.1, but still well below growth neutral, but up from July's 44.1 and April's record low 12.1. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Farm commodity prices are down by 10.4% over the last 12 months. As a result, and despite the initiation of \$32 billion in USDA farm support payments in 2020, only 8% of bankers reported their area economy had improved compared to July, while 18.4% said economic conditions had worsened.

But states have varied in the impact of COVID-19 on the economy depending on government enforced shutdowns. For example, Todd Douglas, CEO of the First National Bank in Pierre, South Dakota stated that, "As for South Dakota, we were a state that did not shut down. Western SD has seen a significant boost to the economy due to tourism from shut down states."

**Farming and ranching:** For only the second time in the last 81 months, the farmland price index moved above growth neutral with an August reading of 50.1, up from July's 45.6.

Approximately 45.8% of bank CEOs with ethanol plants in their area reported temporary shutdowns. The remaining 54.2% indicated ethanol production expanding at a slow pace.

Steven Meier, regional president of the Bank of Colorado in Thornton reported that local ethanol plants were operating at about normal capacity.

The August farm equipment-sales index fell to 32.8 from 34.4 in July. This marks the 83rd straight month the reading has remained below growth neutral 50.0.

**Banking:** Borrowing by farmers expanded for August, but at a slower rate than in July. The borrowing index fell to 53.9 from July's 57.4. The checking-deposit index advanced to 78.9 from 64.7 in July, while the index for certificates of deposit and other savings instruments slumped to 40.8 from 52.9 in July.

This month, bankers estimated that farm loan defaults would rise by 5.3% over the next 12-month period. This is up slightly from the 5.0% recorded last month, and from 4.8% registered one year ago.

Todd Douglas, CEO of the First National Bank in Pierre, South Dakota stated that, "We have a large amount of Paycheck Protection Program loans that have inflated our loan balances and checking balances. We should be back to normal by October if loans get forgiven."

**Hiring:** Layoffs for August exceeded new hiring with an index of 47.4, down from 50.0 in July. Even so, data from the U.S. Bureau of Labor Statistics indicate that employment levels for the Rural Mainstreet economy are down by 225,000, or 5.1% 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 44.6 from July's 43.9. COVID-19 related farm support payments have boosted confidence partially offsetting pessimism from weak agriculture commodity prices, frail retail sales, and August storms.

**Home and retail sales:** The home-sales index rose to a strong 68.9 from July's 68.2. The retail-sales index for August slumped to an even more frail 38.2 from July's 41.2. Business shutdowns 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 August rose to 38.3 from July's 31.9. The farmland and ranchland-price index slipped to 47.9 from 48.8 in July. Colorado's hiring index for August expanded to 48.9 from July's 38.4. Compared to the same time last year, Colorado's Rural Mainstreet economy has lost 10.8% of its employment representing 37,000 jobs.

**Illinois:** The August RMI for Illinois advanced to 42.9 from 38.7 in July. The farmland-price index climbed to 46.1 from July's 44.5. The state's new-hiring index sank to 36.1 from 43.5 in July. Compared to the same time last year, Illinois' Rural Mainstreet economy has lost 9.5% of its employment representing 455,000 jobs.

**Iowa:** The August RMI for Iowa increased to 46.8 from July's 43.1. Iowa's farmland-price index grew to 53.2 from July's 49.2 from June's 48.3. Iowa's new-hiring index for August rose to 51.7 from 43.4 in July. James Brown, CEO of Hardin County Savings Bank in Eldora, reported, "Tremendous storm damage in our southern trade territory including the towns of New Providence, and Union. We subtracted \$100 per acre from our farm customers cash flows with the combined effects of the drought and storm." Compared to the same month last year, Iowa's Rural Mainstreet economy has lost 8.5% of its employment representing 58,000 jobs.

**Kansas:** The Kansas RMI for August climbed to 50.8 from July's 46.4. The state's farmland-price index climbed to 52.7 from 47.0 in July. The new-hiring index for Kansas advanced to 54.8 from 54.4 in July. Compared to the same month last year, Kansas's Rural Mainstreet economy has lost 5.9% of its employment representing 25,000 jobs.

**Minnesota:** The August RMI for Minnesota increased to 42.0 from July's 37.4. Minnesota's farmland-price index increased to 45.7 from 44.0 in July. The new-hiring index for August plummeted to 32.8 from July's 48.8. Lonnie Clark president of State Bank of Chandler in Chandler, We need a safe and effective vaccine fast and news media reporting based on the facts rather than someone's narrative. There is too much uncertainty." Compared to the same month last year, Minnesota's Rural Mainstreet economy has lost 10.8% of its employment representing 57,500 jobs.

**Missouri:** The August RMI for Missouri rose to 42.7 from July's 38.4. The farmland-price index increased to 46.0 from 44.4 in July. The state's hiring gauge fell to 35.5 from 46.7 in July. Don Reynolds Chairman of Regional Missouri Bank in Marceline, "We most certainly have had people and businesses that were significantly damaged, like cattle, restaurants, etc. In the same time many have benefitted from more shopping at home and the various governmental programs. Compared to the same month last year, Missouri's Rural Mainstreet economy has lost 9.5% of its employment representing 31,000 jobs.

**Nebraska:** The Nebraska RMI for August jumped to 52.9 from 49.3 in July. The state's farmland-price index advanced to 51.1 from last month's 48.0. Nebraska's new-hiring index fell to 58.5 from July's 64.0. Compared to the same month last year, Nebraska's Rural Mainstreet economy has lost 5.8% of its employment representing 17,000 jobs.

**North Dakota:** The North Dakota RMI for August rose to 43.3 from July's 41.4. The state's farmland-price index increased to 46.3 from 45.4 in July. The state's new-hiring index was unchanged from July's 37.8. Compared to the same month last year, North Dakota's Rural Mainstreet economy has lost 12.5% of its employment representing 21,400 jobs.

**South Dakota:** The August Rural Mainstreet Index (RMI) for South Dakota climbed to 53.1 from July's 50.7. The state's farmland-price index expanded to 51.2 from July's 48.5. South Dakota's August hiring index fell to 55.8 from 68.6 in July. Compared to the same month last year, South Dakota's Rural Mainstreet economy has lost 5.2% of its employment representing 11,300 jobs.

**Wyoming:** The August RMI for Wyoming advanced to 48.1 from July's 44.5. The August farmland and ranchland-price index increased to 48.7 from 46.4 in July. Wyoming's new-hiring index increased to 56.8 from July's 48.0. Compared to the same month last year, Wyoming's Rural Mainstreet economy has lost 7.6% of its employment representing 16,000 jobs.

### THE BULLISH NEWS

- The nation added 1.4 million jobs in August as the unemployment rate tumbled to 8.4% from 10.2% in July.
- The Case-Shiller home price index for June was up 02% from May and 4.3% above June of 2019.
- U.S. August retail sales advanced above pre-Covid-19 levels and rose 1.2% from July's level.
- Both Creighton's and ISM's manufacturing PMIs rose above growth neutral for June, July, and August.

### THE BEARISH NEWS

- Fall 2020 job cuts announced by U.S. airlines are 16,000 for United, and 40,000 for American, Delta plans to cut 1,900 pilot positions.
- U.S. debt as a percent of GDP reached its highest level since World War II.
- U.S. municipal defaults rose to their highest level since 2011.
- Four of five manufacturing supply managers in Creighton's August survey reported that finding and hiring qualified workers was a significant problem.

### THE OUTLOOK

**National Association of Business Economics:** (September 2020). "Nearly two-thirds of the National Association for Business Economics members who participated in the August 2020 NABE Economic Policy Survey believe the U.S. economy continues to be in a recession that began last February," said NABE President Constance Hunter, CBE, chief economist, KPMG. "Almost half the respondents expects inflation-adjusted gross domestic product to remain below its fourth-quarter 2019 level until the second half of 2022 or later. And 80% of panelists indicate there is at least a one-in-four chance of a 'double-dip' recession. "The panel is split in its view on Congress's fiscal response to the recession, with 40% calling the response insufficient, 37% indicating the response is adequate, and 11% saying it is excessive," Hunter continued. "Nearly three out of four panelists believe the optimal size for the next fiscal package to be \$1 trillion or greater, compared to 17% who favor a smaller package." "More than three-quarters of panelists believe that the current stance of U.S. monetary policy is appropriate, the largest share holding this view since 2007," added Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics. "The majority of panelists—58%—expects the federal funds rate range to remain unchanged at 0-0.25%, or even drop lower, by the end of 2021. Daco added. "Combating COVID-19, promoting economic recovery, and health policy were cited more frequently than a dozen other choices." <https://tinyurl.com/y3c5jsqj>

**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 September job additions will be somewhat disappointing in comparison to August's. \*\*Upturns in municipal bond bankruptcies in the months ahead. \*\*Annualized and seasonally adjusted Q3 GDP will range between 15% and 16%.

### KEEP AN EYE ON

- **U.S. BLS's October jobs report for September.** On October 2, the BLS releases the number of jobs lost or gained for September. Another positive and strong reading will be very bullish for U.S. stocks and bearish for the U.S. bond market.
- **U.S. Bureau of Labor's weekly continuing claims data.** Released every Thursday, this is the earliest reading on the U.S. and state labor markets. The level of unemployed will likely move lower in the weeks ahead as the first-time claims continue to decline.
- **Yield on 10-Year U.S. Treasury bond.** Find instantaneously at <https://finance.yahoo.com>. Watch for this yield to rise back above 1.0% to signal coronavirus impacts waning. Right now, that yield is well-below 1.0%, pointing to less, but still high, U.S. economic risks.

## BANKER READING ROOM

**“Why Relationships Still Matter: How Community Banks Saved The Country During Covid-19.”** Scarlett Sieber, June 22, 2020, Forbes. “Small businesses and community banks laid the foundation for the prosperity enjoyed by the United States USM -1.3% over the last 120 years, but today both of these segments are under siege. Small businesses and small banks compete daily with well-financed rivals that have more resources to spend on marketing, technology, and employees. Rapidly changing attitudes regarding online shopping and banking has accelerated these trends and made competing against larger rivals even more challenging. So how do smaller financial institutions differentiate? Focus on what they do best, building relationships and utilizing technology to augment said relationships.” <https://tinyurl.com/yxecnxjc>

## STATISTIC(S) OF THE MONTH

**23.** The nation's premier business organization, the U.S. Chamber of Commerce, bowed to political correctness and decided to back reelection of 23 House Democrat freshmen who reliably voted against free market principles such as right-to-work laws.

## GOSS EGGS (Recent Dumb Economic Moves)

The Trump Administration's CDC effectively seized private property by banning rental evictions through the end of 2020. All renters have to do is attest that they would be homeless absent the moratorium. The renters would owe back rent at the end of the period (fat chance of collecting a lump sum payment instead of the monthly rent). This action will result in landlords failing to maintain properties, cover property taxes, and pay mortgage payments. And in the end, evictions will explode in 2021.

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