

Welcome to Creighton's September Bank CEO Report. August results from bank CEOs in 10 Rural Mainstreet States were negative with continuing weak farm indicators.

Do Casinos Reduce Taxpayer Burdens? No! Casino Gambling States Spent More, Taxed More, and Expanded More Slowly

Located in 24 states, 515 commercial casinos in 2016 collected \$8.9 billion in taxes on \$40.0 billion in gambler losses, for an average tax rate of approximately 23%, or roughly triple the average sales tax rate. Eleven of the 24 casino states devoted casino tax collections to education spending, while the remaining 13 states dedicated the taxes to a wide array of state and local spending projects. Table 1 shows how casino states differed from non-casino states in terms of spending, taxes, and economic performance.

Did these tax collections result in any meaningful tax relief, or instead fuel an increase state and local government spending? Per \$10,000 in gross domestic product (GDP), state and local government agencies in casino states spent and taxes more heavily than non-casino states. Moreover, casino states expended more on education as a share of GDP than non-casino states. However, states that dedicated casino tax collections on education spent less as a share of GDP than casino states that did not target education for casino tax collections. Additionally, data show that casino states expended more heavily on police operations than non-casino states in 2016.

In terms of economic performance, as measured by GDP growth, non-casino states expanded more briskly in periods 2014-16, 2016-18 and 2014-18.

In summary, data indicate that, for the period analyzed, casino states spent more on state and local government activities, taxed their citizens more heavily and experienced slower GDP growth.

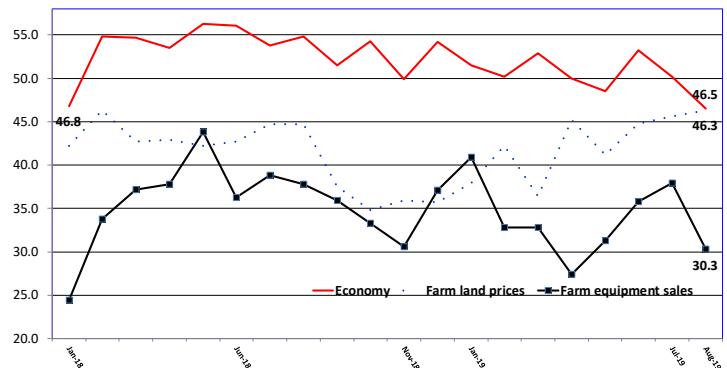
	Casino states (per \$10,000 of 2016 GDP)			No casinos 26 states & DC
	All 24	Casino taxes used for education (11 states)	Casino taxes used for other functions (13 states)	
State & local government spending	\$1,869	\$1,932	\$1,849	\$1,762
State & local taxes	\$844	\$837	\$848	\$836
Education spending	\$545	\$535	\$572	\$516
Police spending	\$59	\$65	\$51	\$49
Economic performance—median GDP growth				
GDP growth 2014-16	5.2%	5.2%	5.2%	6.5%
GDP Growth 2016-18	8.2%	8.7%	7.5%	8.7%
GDP Growth 2014-18	12.9%	14.0%	12.0%	15.3%

Sources: American Gaming Association; U.S. Census Bureau; U.S. Bureau of Economic Analysis

August Survey Results at a Glance:

- The Rural Mainstreet Index falls below growth neutral to its lowest level in almost two years.
- Three of four bank CEOs reported that the trade war was having a negative impact on their local economy.
- Seven of ten bankers support continuing, or even raising tariffs on imported Chinese goods
- Despite worsening economic conditions on the farm, bankers expect only a modest four percent rate of farm loan defaults over the next year.
- Business confidence index plummets to its lowest level since October 2017.

Rural Mainstreet, Economic Indicators, Jan. 2018 – August 2019 (50.0 = growth neutral)



MAINSTREET RESULTS

Rural Mainstreet Index Drops to Lowest Level in Two Years: Trade War Having Negative Impacts

Tables 2 and 3 summarize the survey findings. Next month's survey results will be released on the third Thursday of the month, September 20.

	Aug. '18	July '19	Aug. '19
Area Economic Index	54.8	50.2	46.5
Loan volume	72.2	71.9	66.3
Checking deposits	36.0	51.5	52.5
Certificate of deposits	48.8	47.1	53.8
Farm land prices	44.7	45.6	46.3
Farm equipment area sales	37.8	37.9	30.3
Home sales	63.1	67.6	57.7
Hiring in the area	68.7	66.2	55.0
Retail Business	53.5	47.1	45.0
Economy 6 months from now	46.5	51.5	40.0

Percentage of bankers reporting				
Regarding tariffs on imported goods, farmers and others dependent on agriculture in your area think the Administration should:	Cut tariffs	Continue current tariffs	Raise tariffs (put more pressure on China)	
	28.2%	53.9%	18%	
	Percentage of bankers reporting			
Regarding farm loan defaults in your area over the NEXT year, what do you expect?	Defaults unchanged	Defaults up 1% to 9%	Defaults up 10% to 20%	Defaults up more than 20%
	45.0%	45.0%	7.5%	2.5%
The recent trade skirmishes/war have had, or will have:	Percentage of bankers reporting			
	Positive impact	Little or no impact	A negative impact	A very negative impact
	5%	20%	65%	10%

MAINSTREET ON YOUR STREET

The Creighton University Rural Mainstreet Index (RMI) for fell below growth neutral for the only the second time this year. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the RMI for August indicated negative growth for the region.

Overall: The overall index slumped to 46.5 from 50.2 in July. This is the lowest reading for the index since October 2017. The index ranges between 0 and 100 with 50.0 representing growth neutral, and an RMI below the growth neutral threshold. 50.0, indicates negative growth for the month.

The trade war with China and the lack of passage of the USMCA (NAFTA's replacement) are driving growth lower for areas of the region with close ties to agriculture. Despite a \$16 billion federal government support package coming soon, a drop in farm income is negatively affecting the Rural Mainstreet Economy.

Three of four bankers reported that the trade war was having a negative impact on their local economy. As stated by Jeffrey Gerhart, CEO of the Bank of Newman Grove in Newman Grove, Neb. "Trade wars have been and will continue to be a drain on our ag economy"!

Despite the negative impact of tariffs and the trade war, only 28.2 percent of bankers support cutting tariffs on imported goods from China. Rod Cornelius, market president for Pinnacle Bank in Grand Island, Neb. reported that "I quickly surveyed 12 local producers, majority indicated (U.S. should) increase tariff pressure - go big or go home. Although majority again indicated the tariffs are negatively impacting the local economy."

Farming and ranching: The farmland and ranchland price index for August improved to a still weak 46.3 from July's 45.6. This is the 69th straight month the index has remained below growth neutral 50.0. The August farm equipment-sales index dropped to 30.3 from July's 37.9. This marks the 72nd straight month the reading has remained below growth neutral 50.0. "The dismal economic outlook for farm income continues to decimate agriculture equipment sales in the region," reported Goss.

Banking: Borrowing by farmers for August remained strong. The borrowing index slipped to 66.3 from July's 71.9. The checking-deposit index rose to 52.5 from July's 51.5, while the index for certificates of deposit and other savings instruments expanded to 52.5 from 47.1 in July. Despite worsening economic conditions on the farm, bankers expect only a modest four percent rate of farm loan defaults over the next year.

Hiring: The employment gauge sank to a still solid 55.0 from July's very strong 66.2. Despite tariffs and flooding over the past several months, Rural Mainstreet businesses continue to hire at a solid pace. Over the past 12 months, the Rural Mainstreet economy added jobs at a 0.3% pace compared to a higher 1.5 % for urban areas of the same 10 states. Rural areas in three Rural Mainstreet states, Illinois, Iowa, Missouri, and Nebraska lost jobs over the past 12 months.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, plummeted to 40.0 from July's 51.5, indicating a very negative economic

outlook among bankers. This is the lowest confidence index recorded since October 2017.

Home and retail sales: The home-sales index decreased to a still solid 57.7 from July's 67.6. The retail sales index for August slumped to 45.0 from July's 47.1. It appears that the region experienced a significant slump in retail sales from June's solid sales index of 58.1.

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 dipped to 50.0 from July's 53.0. The farmland and ranchland-price index climbed to 47.1 from July's 46.2. Colorado's hiring index for August fell to 61.8 from July's 74.5. Over the past 12 months rural areas in Colorado have experienced job growth of 3.0% compared to a somewhat weaker, but still healthy, 1.9% for urban areas of the state.

ILLINOIS

The August RMI for Illinois decreased to 45.2 from 49.1 in July. The farmland-price index was unchanged from July's 45.2. The state's new-hiring index dropped to 56.2 from last month's 59.5. Over the past 12 months rural areas in Illinois have experienced job losses with a shrinkage of 0.5% compared to a much stronger 1.7% for urban areas of the state. Jim Eckert, president of Anchor State Bank in Anchor, reported that "Crops in our immediate area (central IL) look pretty good, but need rain soon. You don't have to go very far north or south to find poor-looking crops - very far behind normal and very, very dry."

IOWA

The August RMI for Iowa sank to 46.2 from July's 49.9. Iowa's farmland-price index improved to 46.1 from July's 45.4. Iowa's new-hiring index for August fell to 51.8 from 61.6 in July. Over the past 12 months rural areas in Iowa have experienced job losses with a reduction of 0.4% compared to a much stronger 1.4% for urban areas of the state.

KANSAS

The Kansas RMI for August slid to 45.6 from 49.0 in July. The state's farmland-price index grew to 45.9 from July's 45.2. The new-hiring index for Kansas plummeted to 49.9 from 59.4 in July. Over the past 12 months rural areas in Kansas have experienced job losses with a contraction of 0.3% compared to a stronger 1.8% for urban areas of the state. According to Don Vogel, CEO of Farmers National Bank, "Our rural area is dependent on ag and down due reduced acreage planted (spring wet conditions), reduced yield (current dry conditions) and tariffs."

MINNESOTA

The August RMI for Minnesota slid to 47.1 from July's 55.3. Minnesota's farmland-price index rose to 46.3 from 45.5 in July. The new-hiring index for August declined to 54.0 from July's 63.0. Over the past 12 months rural areas in Minnesota have experienced job growth of 1.4% compared to a significantly weaker 0.5% for urban areas of the state."

MISSOURI

The August RMI for Missouri fell to 41.1 from 45.1 in July. The farmland-price index for the state increased to 44.7 from July's 44.1. Missouri's new-hiring index for July tumbled to 38.0 from July's 48.9. Over the past 12 months rural areas in Missouri have experienced mounting job losses with job reductions of minus 4.0% compared to a much stronger 1.6% for urban areas of the state.

NEBRASKA

The Nebraska RMI for August fell to 44.4 from July's 47.9. The state's farmland-price index slipped to 43.5 from last month's 44.0. Nebraska's new-hiring index slumped to 46.8 from July's 56.3. Over the past 12 months rural areas in Nebraska have lost jobs at a rate of minus 1.1% compared to a stronger 1.3% for urban areas of the state. But there is some optimism among bankers. John Nelsen, branch president of FirstTier Bank in Holdrege, "If we happen to win the trade war we will have a very positive impact on our local economy. We need to play it out."

NORTH DAKOTA

The North Dakota RMI for August declined to 47.4 from July's 51.0. The state's farmland-price index increased to 46.4 from 45.7 in July. The state's new-hiring index fell to a still solid 54.9 from 64.5 in July. Over the past 12 months rural areas in North Dakota have experienced job growth of 1.6% compared to a weaker 0.4% for urban areas of the state.

SOUTH DAKOTA

The August RMI for South Dakota sank below growth neutral falling to 48.7 from July's 51.5. The state's farmland-price index improved to 46.8 from July's 45.8. South Dakota's new-hiring index plummeted to 58.2 from 66.1 in July. Over the past 12 months rural areas in South Dakota have experienced job growth of 3.0% compared to a healthy 2.3% for urban areas of the state.

WYOMING

The August RMI for Wyoming sank to 48.5 from July's 51.7. The August farmland and ranchland-price index increased to 46.7 from July's 45.9. Wyoming's new-hiring index slumped to 57.7 from 66.5 in July. Over the past 12 months rural areas in Wyoming have experienced job growth of 2.9% compared to a weaker 0.9% for urban areas of the state.

THE BULLISH NEWS

- The U.S. unemployment rate remained at a 50-year low of 3.7%, while the joblessness rate for Black and Hispanic workers declined to the lowest level on record.
- The U.S. inflation rate as measured by the consumer price index (CPI) rose by 1.8% July 2018 to July 2019
- The core CPI, which excludes prices of food and energy, climbed by a higher 2.0% over the same period.

THE BEARISH NEWS

- Home price inflation slowed further in June as the Case-Shiller index rose 0.3% in June compared with May. Case-Shiller home-price gains have slowed to a near 7-year low.
- Creighton and U.S. Purchasing Management Indices (PMI) dropped below growth neutral for August (the first time in almost 3 years).
- In just 10 months the U.S. budget deficit exceeded last year's full year deficit. The budget deficit is up 27% from last year. in almost 3 years).

THE OUTLOOK

National Association of Business Economics (NABE), (September 2019). "Survey respondents indicate that the expansion will be extended by the shift in monetary policy, and most expect the next economic recession will occur later than anticipated when the February policy survey was conducted," said NABE President Constance Hunter, CBE, chief economist, KPMG. "Of the 98% of respondents who believe a recession will come after 2019, the panel is split regarding whether the downturn will hit in 2020 or 2021. "Respondent attitudes towards current fiscal policy have shifted significantly as well," continued Hunter. "The percentage of panelists who find current fiscal policy 'too stimulative' has declined from 71% in August 2018 to 51% in the current survey. Just over one-third consider fiscal policy 'about right,' and 8% find it 'too restrictive.'" "A majority of respondents believes U.S. monetary policy is 'about right,' but the percentage holding this view has fallen from 75% in the previous two surveys to 62%," added Survey Chair Megan Greene, senior fellow at the Mossavar-Rahmani Center of Business and Government at the Harvard Kennedy School. "The survey was conducted before the Federal Reserve's rate cut on July 31; the majority of survey responses was received prior to that date. A plurality of panelists anticipates the upper end of the federal funds target rate will be 2% in 2019 and 2020, reflecting one more cut in 2019. Survey respondents are nearly unanimous in their support of the Federal Reserve continuing to have congressional oversight and policy independence.

FROM GOSS:

- I expect **Annualized GDP growth of 1.5% for Q3, 2019.
- **Year-over-year increase in U.S. housing prices (Case-Shiller) to fall below 2.5% in Q3 (and to continue to drop).
- **The Federal Reserve Open Market Committee (FOMC) to reduce short-term interest rates by another ¼ % (25 basis points) at their September 17-18 meetings.

STATISTIC OF THE MONTH

- 51 and 0%. In total 51 individuals have been criminally charged for illegally securing admission to top colleges for their wealthy teens. However, no (0%) colleges have been charged for assisting in the scam. U.S. colleges and universities are pampered by our nation's laws and regulations.

KEEP AN EYE ON

- **BREXIT:** On October 31, Great Britain is scheduled to exit the European Union (EU). A messy (hard) exit with no deal will be a significant negative for the global economy. It will not be good for equities, but increase bond prices and reduce yields as investors seek safe financial havens.
- **ISM and Creighton's PMIs for September:** On October 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. Both are trending downward and both were below growth neutral 50.0 for August.
- **10-Year U.S. Treasury bond yield.** Currently 1.62%. This is the lowest yield in 7 years and indicates a significant increase in global tensions as investors flee risky bets and buy safer U.S. Treasury bonds, driving prices up and yields lower.

BANKER READING ROOM

"ICBA Statement on Trump Administration Housing-Finance Proposal," Sept. 6, 2019. Independent Community Bankers of America® (ICBA) President and CEO Rebeca Romero Rainey issued the following statement on the Trump administration's proposal for reforming the housing-finance system. "ICBA and the nation's community bankers commend the Trump administration for their efforts on housing-finance reform. Among its proposals, the administration's plan would direct Treasury and the Federal Housing Finance Agency to begin the process of recapitalizing Fannie Mae and Freddie Mac and ending the net-worth sweep of their earnings. "These long-time community bank priorities—as detailed in ICBA's Principles for GSE Reform white paper—are required by the Housing and Economic Recovery Act and can be accomplished administratively by the FHFA and Treasury. This action will protect taxpayers and bring more stability to the housing market. <https://tinyurl.com/y4gnj8r4>

GOSS EGGS (Recent Dumb Economic Moves)

The Business Roundtable, a group of CEOs of nearly 200 major U.S. corporations, last month issued a new definition of the "purpose of a corporation." Instead of serving shareholders and maximizing profits they will now serve employees, customers, the environment, suppliers, and the community. Nothing like adopting amorphous, ill-defined metrics to measure CEO performance. CEOs now have an alibi for their operational failures.

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