THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

April 2017

Corporate Tax Reform, An Easy Win-Win One-Time Tax Cut on Repatriated Earnings

Last month in a pessimistic tone, House Speaker Paul Ryan announced that tax reform would take longer than repealing and replacing Obamacare. But with Republicans and Democrats holding enough votes to thwart most efforts, comprehensive tax reform represents a fool's errand. Instead, Congress should pass tax reform in digestible portions. For example, cutting tax rates on earnings of U.S. corporations held abroad is a win-win that would find acceptance by even the most hardened DC taxer/spender.

The United States, with the third highest corporate income tax rate in the world at 39.1 percent when state taxes are included, is exceeded only by Chad and the United Arab Emirates. Due to U.S. high corporate tax rates, rather than bringing profits home from abroad, U.S. corporations squirrel the profits in off-shore accounts or invest the cash in plant, equipment and technology among America's competing nations. Worse still, some U.S. companies engage in inversions whereby a U.S. company moves its headquarters to low tax nations such as Ireland with its 12.5 percent tax rate.

Congress and the Trump Administration should take action that would both increases tax collections, re-duces tax inversion deals, and boosts U.S. corporate investment. Currently, it is estimated that U.S. firms hold as much as $3.0 trillion abroad. Assuming a one-time corporate tax rate of 10 percent on repatriated earnings of $2.0 trillion, 2017 tax collections would climb by $200 billion. The remaining $1.8 trillion of repatriated earnings could be used for job creating (desirable to less desira-ble): 1) investment in plant, equipment and technology, 2) dividends to investors, 3) stock repurchases, and 4) salaries to employees. Both Democrats and Republicans can and would sign on to this winning tax reform in a speedy fashion. Ernie Goss.

MAINSTREET RESULTS

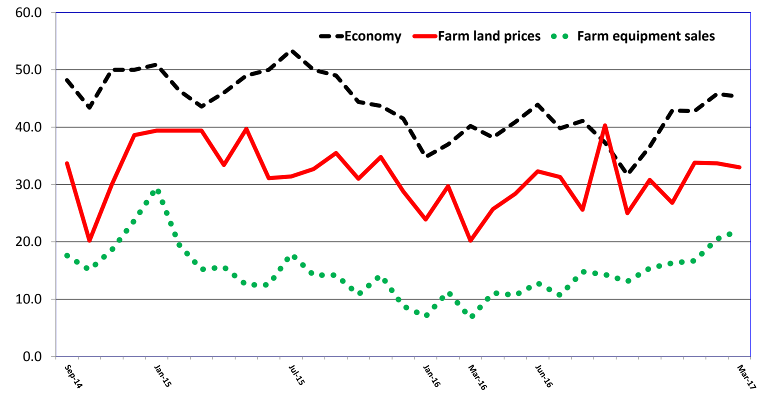
Rural Mainstreet Begins Year Weak:
One-Third Indicate Loan Defaults Biggest Banking Threat

Table 1: The Mainstreet Economy	Jan 2016	Dec 2016	Jan 2017
Area Economic Index	34.8	42.9	42.8
Loan volume	55.4	78.5	52.4
Checking deposits	55.5	57.1	71.9
Certificate of deposits	42.3	38.1	43.9
Farm land prices	23.9	26.8	33.8
Farm equipment area sales	7.0	16.3	16.7
Home sales	43.3	46.4	52.5
Hiring in the area	51.2	51.2	52.5
Retail Business	32.7	45.1	39.1

Survey Results at a Glance:

- The overall index fell below growth neutral for the 19th straight month.
- Rural Mainstreet businesses, not directly linked to farming, expanded employment for the month.
- Average annual cash rents for crop acreage was $211 per acre, which is down 16 percent from last year according to bank CEOs.
- More than seven of 10 bank CEOs expect farm loan defaults to rise over the next 12 months. Almost one in six bankers expect such defaults to expand by more than 10 percent.
- Almost one-third of bankers report that property taxes are a major economic problem for farmers in their area.

Rural Mainstreet, Economic Indicators, Sept. 2014 – March 2017
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index remained weak with a reading below growth neu-tral for the 19th straight month, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, which ranges between 0 and 100 slipped to 45.3 for March from 45.8 in February. The last time the overall index was at or above growth neutral was August 2015.

Weak farm commodity prices continue to squeeze Rural Mainstreet economies. Over the last 12 months, livestock commodity prices have tumbled by 6.6 percent and grain commodity prices have slumped by 0.9 percent. Thus, year over year price changes remain negative, but are now less negative than several months ago.

But there was a great deal of variability across the 10-state region. For example, Scott Tewksbury, presi-dent of Heartland State Bank in Edgeley, North Dakota. reported, "Record 2016 crop yields have enabled most crop based farms to have a good economic year in our area, but concerns remain over projected profitability for 2017.

Farming and ranching: The farmland and ranchland-price index for March dipped to a frail 33.0 from February's 33.7. This is the 40th straight month the index has languished below growth neutral 50.0.

On average bankers reported an average cash rent for cropland of $212 per acre, which is down by 16.1 percent from last year.

According to Pete Haddeland, CEO First National Bank in Mahnomen, Minnesota, "Land rents in our area are working their way down."

The March farm equipment-sales index increased to a still very weak 22.0 from 20.5 in February. This marks the fifth straight month that the reading has advanced.

Banking: Borrowing by farmers remained above growth neutral for March as the loan-volume index advanced to 58.4 from last month's 50.1. The checking-deposit index slumped to a still solid 56.0 from 68.1 in February, while the index for certificates of deposit and other savings instruments increased to 47.6 from 46.8 in February.

Hiring: The job gauge rose to 59.6 from February's 54.3. Rural Mainstreet businesses not linked to agriculture increased hiring for the month at a solid pace.

Confidence: The confidence index, which reflects expectations for the economy six months out, rose to 47.5 from 45.7 in February indicating a continued pessimistic outlook among bankers. Until agricultural commodity prices begin to trend higher, I expect banker's economic outlook to remain weak.

Home and retail sales: Home sales moved higher for the Rural Mainstreet economy for March with a reading of 56.2, down slightly from February's 57.8. The March retail-sales index declined to 41.5 from February's 45.8. Much like their urban counterparts, Rural Mainstreet retailers are experiencing pullbacks in sales.

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. The survey is supported by a grant from Security State Bank in Ansley, Neb.

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 (RMI) rose to 43.0 from 37.1 in February. The farmland and ranchland-price index sank to 49.4 from February's 66.6. Colorado's hiring index for March declined to 56.5 from February's 68.2.

ILLINOIS
The March RMI for Illinois decreased to 40.3 from 46.4 in February. The farmland-price index declined to 30.5 from February's 34.8. The state's new-hiring index fell to 51.1 from last month's 56.7.

IOWA
The March RMI for Iowa fell to 40.0 from 46.1 in February. Iowa's farmland-price index for March sank to 30.4 from 40.1 I February. Iowa's new-hiring index for March declined to 50.5 from February's 58.6.

KANSAS
The Kansas RMI for March increased to 43.4 from February's 40.8. The state's farmland-price index advanced to 32.0 from 16.8 in February. The new-hiring index for Kansas improved to 57.2 from 48.3 in February.

MINNESOTA
The March RMI for Minnesota dipped to 46.1 from February's 47.5. Minnesota's farmland-price index slumped to 33.4 from 38.1 in February. The new-hiring index for the state jumped to 62.7 from last month's 57.9.

MISSOURI
The March RMI for Missouri advanced to 56.7 from 55.9 in February. The farmland-price index sank to 42.3 from February's 56.2. Missouri's new-hiring index slipped to 61.2 from 64.4 in February.

NEBRASKA
The Nebraska RMI for March declined to 43.3 from 47.1 in February. The state's farmland-price index fell to 32.0 from February's 39.3. Nebraska's new-hiring index declined to 57.1 from 58.3 in February.

NORTH DAKOTA
The North Dakota RMI for March slumped to 25.4 from February's 38.0. The farmland-price index increased to 23.1 from February's 19.9. North Dakota's new-hiring index plummeted to 21.3 from 38.1 in February.

SOUTH DAKOTA
The March RMI for South Dakota fell to 51.3 from February's 55.9 . The farmland-price index slumped to 36.0 from February's 59.2. South Dakota's new-hiring index advanced to 73.0 from February's 65.5.

WYOMING
The March RMI for Wyoming sank to 36.5 from 42.3 in February. The March farmland and ranchland-price index climbed to 28.6 from February's 22.3. Wyoming's new-hiring index fell to 43.5 from February's 46.1.

THE BULLISH NEWS

- The nation's unemployment fell to 4.5% for March. This is slightly below the Federal Reserve's rate at which the economy continues to expand without excessive inflation.
- Year over year average hourly earnings for workers rose to 2.7% for March, well above the rate prevailing over most of the economic recovery.
- The U.S. trade deficit slumped to $43.6 billion in February from $48.2 billion in January as global demand for U.S. exports climbed.
- The Case-Shiller home price index for the U.S. rose 5.9%, a 31-month high in January.

THE BEARISH NEWS

- The long-term unemployed continue to struggle with the current jobless rate above pre-recession levels.
- The year-over-year U.S. consumer price index (CPI) for February rose to 2.7%, its fastest growth in past 5 years.

WHAT TO WATCH

- **Debt ceiling fight:** Total U.S. debt currently stands at $19.8 trillion of which $14.3 is owned by the public (the rest by other government agencies). On April 28 the continuing resolution allowing spending beyond limit expires.

- **French elections**: If Marine Le Pen is one of the top two vote getters in the first-round of French presidential elections on April 23, global financial risks will skyrocket with a rising value of the U.S. dollar, sinking U.S. long term interest rates, and falling U.S. stock values. She supports France's exit from the European Union (Frexit). She is often portrayed as "Donald Trump in a skirt."

- **GDP**: On April 28, The Bureau of Economic Analysis releases it Q1, 2017 gross domestic product estimate. Annualized growth above 3.0% will be very bullish and above the expected 2.8%.

THE OUTLOOK

FROM GOSS:

- **I expect the U.S. trade deficit with China to continue to widen putting more and more pressure on politicians to take ill conceived actions. **I expect short term and long term interest rates to continue to move higher through the second quarter of 2017, albeit at a slower pace than over the last four months. **I expect wages to continue to grow, but at a faster pace approaching 3.5% annualized by the end of quarter 3 of 2017.

OTHER FORECASTS:

- **National Association of Business Economists (NABE)**: "Results from NABE's March 2017 Outlook Survey show that expectations for economic growth through 2017 have remained largely unchanged," according to NABE President Stuart Mackintosh, CBE, executive director, Group of Thirty. "Real GDP is expected to increase 2.3% in 2017, before accelerating to 2.5% in 2018. Nine out of 10 panel-ists believe there is a 25% or lower probability of a recession in the U.S. in 2017. Moreover, nearly 60% indicate that the balance of risks to the economy through 2018 is weighted to the upside. While a majority of the panelists expects corporate tax reform and individual tax cuts to be enacted in the second half of this year, 70% believe that the market is overpricing the impact of expected policy developments.""Panelists expect higher oil prices, rising long-term interest rates, and further gains in compensation in 2017," continued Mackintosh. "Various measures of inflation suggest gradually rising price pressures this year. In addition, the survey results reflect a strong improvement in the economy's capacity to create new jobs. Consistent with these inflation and labor market developments, the panel anticipates that the Federal Reserve will raise the federal funds rate three times in both 2017 and 2018, bringing the midpoint of the target range to 2.125% by the end of next year."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Even with the highest taxes in the U.S., Governor Cuomo of New York will, in the coming weeks, recommend renewal of its so-called "Millionaires Tax", propose tax increases on prepaid cell phones, and an expansion of New York's so-called "Amazon Tax" on Internet sales. As a result, more and more New Yorkers snow-birding in Florida will fail to fly north as summer approaches.

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This month's survey results will be released on the third Thursday of the month, May 18.