THE MAINSTREET ECONOMY REPORT

April 2019

"A monthly survey of community bank CEO's"

Obama's Economy Versus Trump's Economy: Which Is Tops?

Supporters of President Obama argue that President Trump has benefited from the economic policies from his predecessor, rather than from his own policies. How does the economic performance compare between the last 24 months of the Obama Administration, and the first 24 months of the Trump Administration across important economic metrics?

Overall Economy. For the first two years of the Trump Administration, gross domestic product (GDP) expanded by 9.9%. This compares to 6.4% GDP growth for the last two years of the Obama Presidency. In terms of inflation adjusted (real) GDP growth, Obama's GDP growth was 4.8% versus Trump's advance of 7.5%. **Advantage Trump.**

Jobs. For the first two years of the Trump Administration, total non-farm jobs expanded by 3.3%. This compares to 3.6% non-farm job growth for the last two years of the Obama Presidency. In terms of manufacturing job growth, Obama's growth was 0.5% versus Trump's advance of 3.7%. **Advantage Obama Overall Job Growth; Trump Advantage Manufacturing Job Growth.**

Unemployment. For the first two years of the Trump Administration, the unemployment rate declined by eight-tenths of one percentage point. This compares to a fall of nine-tenths of one percentage point for the Obama Presidency. **Advantage Obama.**

Wages and Salaries. For the first two years of the Trump Administration, non-farm wages and salaries rose by 9.4%. This compares to a lower gain of 8.2% for the last two years of the Obama Presidency. **Advantage Trump**

Federal Spending and Taxes. For the first two years of the Trump Administration, federal spending as a percent of GDP fell by approximately one-half of one percentage point. This compares to an increase of approximately one-half of one percentage point for the final two years of the Obama. For the last two years of the Obama Administration, federal taxes as a percent of GDP expanded by 0.225% while they declined by 1.22% for the first two years of the Trump Presidency. **Advantage Trump.**

Federal Deficit and Debt. For the first two years of the Trump Administration, the federal deficit as a percent of GDP fell by 68 basis points or 68 hundredths of one percentage point. This compares to a decline of 36 basis points for the final two years of the Obama. For the last two years of the Obama Administration, the total federal debt as a percent of GDP expanded by 424 basis points, while they declined by 110 basis points for the first two years of the Trump Presidency. **Advantage Trump.**

The president's influence on the overall economy is limited with other factors such as global growth and Federal Reserve policy playing significant roles. Nonetheless, there is evidence that Trump's economic policies of less regulation and lower taxes since taking office are pushing most economic metrics in a more favorable direction than experienced in the 2.0 years before Trump assuming the presidency

MAINSTREET RESULTS

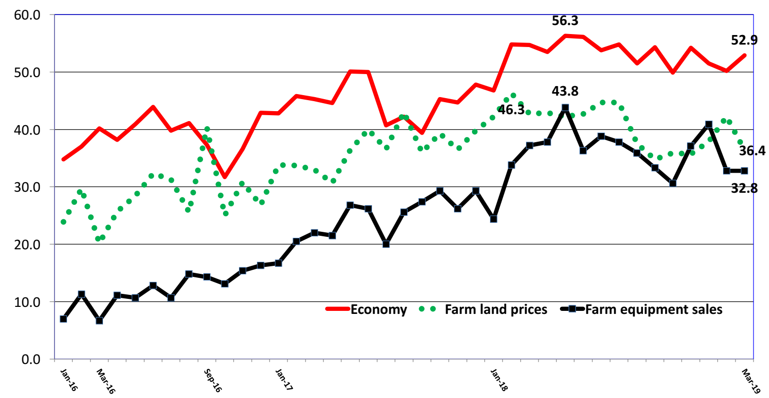
Rural Mainstreet Index Rises for March: Almost Half Report Negative Flood Impacts

March Survey Results at a Glance:

- Overall index moves above growth neutral and to its highest level since December of last year.
- More than half of bank CEOs report negative economic impacts from the flood.
- Approximately 82.9 percent of bankers reported that the number one reaction to farmer financial stress has been restructuring loans.

Table 1: The Mainstreet Economy	Mar 2018	Feb 2019	Mar 2019
Area Economic Index	54.7	50.2	52.9
Loan volume	56.9	71.3	76.7
Checking deposits	58.0	40.9	42.4
Certificate of deposits	50.0	47.0	47.1
Farm land prices	42.7	42.2	36.4
Farm equipment area sales	37.2	32.8	32.8
Home sales	52.3	50.0	52.9
Hiring in the area	58.1	60.6	65.7
Retail Business	48.9	48.4	48.5

Rural Mainstreet, Economic Indicators, Jan. 2016 – March 2019
(50.0 = growth neutral)



- On average, bankers expect approximately 18 percent of grain farmers to experience expenses to exceed revenue for 2019. Up only slightly from March 2018.

The Creighton University Rural Mainstreet Index climbed above growth neutral in October for a ninth 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 overall index expanded to 52.9 from 50.2 in February. This is highest reading since December of last year, and the eleventh time in the past twelve months that the index has moved above growth neutral. The index ranges between 0 and 100 with 50.0 representing growth neutral.

Our surveys over the last several months indicate the Rural Mainstreet economy is expanding outside of agriculture. However, the negative impacts of tariffs and low agriculture commodity prices continue to weaken the farm sector.

Farming and ranching: The farmland and ranchland-price index for March slumped to 36.4 from February's 42.2. This is the 64th straight month the index has fallen below growth neutral 50.0.

The February farm equipment-sales index was unchanged from February's 32.8. This marks 67th straight month that the reading has fallen below growth neutral 50.0.

Bankers were asked to estimate the percentage of grain farmers in their area that were projecting negative cash flow for 2019. On average, bankers expect approximately 18 percent of grain farmers to experience expenses to exceed revenue for 2019. This in approximately one percent higher than last March's results when the same question was asked.

However, Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Illinois, reported, "2019 will again be a critical point in the progression of deterioration of balance sheets from this depressed farm economy. Working capital buffers have been greatly reduced by negative cash flows the last 4 years with cash flows again stressed to negative for the current crop year."

Kuhlmeier also indicated that strong yields and last year's market facilitation payments on soybeans have slowed the financial decline.

Regarding property taxes on farmers, 25.7 percent of bankers reported that these taxes were a major problem or issue for farmers. Another 40.0 percent indicated that property taxes were an important issue for farmers.

In terms of financial stress for farmers, 82.9 percent of bankers reported that the number one reaction to financial stress was restructuring loans. Another 14.3 percent indicated that farmers were slow paying their loans and 2.9 percent reported financially stressed farmers selling the farm to more economically viable farm operators.

Banking: Borrowing by farmers for February was strong as the borrowing index climbed to 76.7 from February's 71.3. The checking-deposit index increased to a weak 42.4 from February's 40.9, while the index for certificates of deposit and other savings instruments rose to 47.1 from 47.0 in February.

Hiring: The employment gauge climbed to a healthy 65.7 from February's 60.6. Despite weak farm commodity prices and farm income, Rural Mainstreet businesses continue to hire at an improved rate. Over the past 12 months, the Rural Mainstreet economy added jobs at a 0.3 percent pace compared to a higher 1.3 percent for urban areas of the same 10 states.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, fell to an anemic 45.7 from February's 48.5, indicating a pessimistic economic outlook among bankers.

March floods, tariffs, trade tensions, and anemic farm income negatively influenced the economic outlook of bank CEOs.

Home and retail sales: The home-sales index increased to 52.9 from 50.0 in February. The retail sales index for March was 48.5, unchanged from February.

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.

MAIN$TREET ON YOUR $TREET

COLORADO

Colorado's Rural Mainstreet Index for March climbed to 54.5 from 52.3 in February. The farmland and ranchland-price index fell to 36.8 from February's 42.7. Colorado's hiring index for March climbed to 67.1 from February's 63.9. In 2018, Colorado exported $577.5 million in goods to China. This represented a 1.4 percent decline from the 2017 level.

ILLINOIS

The March RMI for Illinois fell to 46.8 from 50.5 in February. The farmland-price index sank to 34.8 from February's 42.3. The state's new-hiring index increased to 59.1 from last month's 58.5. In 2018, Illinois exported $3.4 billion in goods to China. This represented a 34.8 percent decline from the 2017 level.

IOWA

The March RMI for Iowa improved to 50.2 from February's 49.3. Iowa's farmland-price index decreased to 35.7 from February's 41.9. Iowa's new-hiring index for March slipped to 55.7 from 55.9 in February. In 2018, Iowa exported $625.6 million in goods to China. This represented a 6.5 percent increase from the 2017 level.

KANSAS

The Kansas RMI for March dipped to 50.5 from February's 50.9. The state's farmland-price index slumped to 35.7 from 42.4 in February. The new-hiring index for Kansas declined to 56.5 from 60.1 in February. In 2018, Kansas exported $657.1 million in goods to China. This represented a 6.9 percent decline from the 2017 level.

MINNESOTA

The March RMI for Minnesota rose to 52.0 from February's 47.4. Minnesota's farmland-price index declined to 36.1 from 41.4 in February. The new-hiring index for March soared to 60.4 from February's 50.7. In 2018, Minnesota exported $2.3 billion in goods to China. This represented a 13.7 percent gain from the 2017 level.

MISSOURI

The March RMI for Missouri fell to 47.5 from 53.4 in February. The farmland-price index for the state decreased to 34.9 from February's 43.0. Missouri's new-hiring index for March slumped to 48.6 from February's 54.7. In 2018, Missouri exported $782.8 million in goods to China. This represented a 15.8 percent decline from the 2017 level.

NEBRASKA

The Nebraska RMI for March advanced to 50.8 from February's 49.4. The state's farmland-price index slumped to 35.8 from last month's 42.0. Nebraska's new-hiring index expanded to 57.3 from February's 56.2. In 2018, Nebraska exported $424.6 million in goods to China. This represented a 12.1 percent decline from the 2017 level. James Stanosheck, president of the State Bank of Odell in Odell, reported "The big economic issue for the county is the repayment of a judgement against the county as a result of a what is called the Beatrice 6. The judgement amount $28 million to $30 million, paid by real estate taxes."

NORTH DAKOTA

The North Dakota RMI for March rose to 57.9 from February's 52.7. The state's farmland-price index fell to 37.7 from 42.8 in February. The state's new-hiring index soared to 76.1 from 65.0 in February. In 2018, North Dakota exported $21.6 million in goods to China. This represented a 58.2 percent decline from the 2017 level.

SOUTH DAKOTA

The March RMI for South Dakota remained above growth neutral and climbed to 54.2 from February's 51.3. The state's farmland-price index sank to 36.7 from February's 42.5. South Dakota's new-hiring index expanded to 66.2 from 61.3 in February. In 2018, South Dakota exported $47.8 million in goods to China. This represented a 24.9 percent decline from the 2017 level.

WYOMING

The March RMI for Wyoming advanced to 55.1 from February's 52.5. The March farmland and ranchland-price index sank to 37.0 from 43.3 in February. Wyoming's new-hiring index declined to 68.8 from 69.2 in February. In 2018, Wyoming exported $53.0 million in goods to China. This represented a 44.5 percent increase from the 2017 level.

THE BULLISH NEWS

- The U.S. economy added 196,000 jobs in March and the unemployment remained at a low 3.8%.
- Last week, first-time claims for unemployment insurance fell to their lowest level in 50 years.

THE BEARISH NEWS

- The federal budget deficit rose to $693 billion for the first half of fiscal 2019. Revenues were up, by 1% to $1.5 trillion, but spending rose even more, by about 5% to $2.2 trillion.
- Housing starts decreased 8.7% to an annual rate of 1.162 million units last in February.
- U.S. home prices in January rose at the slowest pace in 4 years, or 4.6% year-over-year.

WHAT TO WATCH

- **Consumer Price Index for April:** The U.S. Bureau of Labor Statistics (BLS) will release the CPI for April on May 10. Year-over-year growth above 2.5% will cause the Fed to question, but not change, their interest rate stance for 2019.
- **GDP:** On April 26, the Bureau of Economic Analysis releases estimated GDP for quarter one, 2019. An annualized growth below 1% will be bullish for bonds and bearish for stocks. A reading above 3% (which I doubt) would be bearish for the bond market.
- **Jobs:** On May 3, the BLS releases its jobs report for March. Job additions above 150,000 with year-over-year wage gains between 3.3% and 3.6% will signal a "goldilocks economy."

STATISTIC OF THE MONTH

•89. If all of the announced nuclear closures go forward, the total number of operating nuclear reactors in the U.S. will decline from 99 to 89 by 2025. The amount of clean electricity lost from those 10 reactors would be 23% more than all of the solar electricity generated in the U.S. in 2017 (Forbes, Aug. 1, 2018).

THE OUTLOOK

FROM GOSS:

- I expect **Annualized GDP growth of 1.4% for Q1, 2019. **U.S. job growth to continue, but job gains to range between 100,000 and 140,000 for the next several months. **Year-over-year increase in U.S. housing prices to fall below 4% next month (and to continue to drop).

OTHER FORECASTS:

National Association of Business Economics (NABE). MARCH SUMMARY: "NABE Outlook Survey panelists believe the U.S. economy has reached an inflection point, with the consensus forecasting real GDP growth to slow from 2.9% in 2018 to 2.4% in 2019, and to 2.0% in 2020," said NABE President Kevin Swift, CBE, chief economist, American Chemistry Council. "The panel has turned less optimistic about the outlook since the previous survey, as three-quarters of respondents see risks tilted to the downside, and only six percent perceive risks to the upside." "A majority of panelists sees external headwinds from trade policy and slower global growth as the primary downside risks to growth," added Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics. "Three-quarters of respondents have reduced their 2019 GDP growth outlook in response to trade policy developments. Nonetheless, recession risks are still perceived to be low in the near term. Panelists put the odds of a recession starting in 2019 at around 20%, and the odds of a recession by the end of 2020 at 35%. In part," Daco continued, "this reflects the Federal Reserve's dovish policy U-turn in January. A near-majority of panelists anticipates only one more interest rate hike in this cycle compared to the three hikes forecasted in the December survey."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

Japanese Prime Minister Shinzo Abe is pushing a hike in the consumption tax for the nation's citizens at just the wrong time. Even negative interest rates are failing to stimulate this struggling economy and will not offset the negative impact of this tax hike.

BANKER READING ROOM

"Community Focus 2020: The Community Bank Agenda for Expanding Economic Opportunity." "Community banks are well positioned to support greater economic opportunity for all Americans. Serving the nation's rural, suburban and urban communities with more than 52,000 locations, community banks are critical to ensuring that every local community can join in the nation's broad economic prosperity. ICBA and community bankers developed Community Focus 2020 to advance a more efficient system of regulation, unbiased laws governing the financial sector, a safer and more secure business environment, and more effective agriculture policies to extend the nation's economic growth to every corner of the country." Read More at: https://www.icba.org/advocacy/community-focus-2020

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