

Lew Says "Be a Patriot, Pay More Taxes" Support Government, Not Shareholders

Last month, Jack Lew, sounding more like a Sunday school teacher than the U.S. Secretary of Treasury called on U.S. corporations to be patriotic, and reject the corporate tactic labeled "inversion." Using this legal device, U.S.-based, multinational companies can slice their tax bills by merging with a foreign company and reorganizing in a country with a lower tax rate. For example, many U.S. corporations can reorganize in Great Britain and cut their income tax burdens in half. Instead of pleading for corporations to financially support the government at the expense of shareholders, U.S. policymakers should undertake two steps. First, allow U.S. corporations to repatriate foreign earnings at a competitive tax rate. A recent analysis by the Wall Street Journal concluded that 60 large corporations, to avoid paying U.S. corporate taxes, are parking over \$160 billion of income overseas. Thus, shrinking the U.S. corporate tax rate to 20% on repatriated earnings could potentially raise \$32 billion in taxes. Second, the U.S. should decrease the tax rate on domestic earnings to 25% and chop deductions/subsidies to favored businesses. In 2013 for example, Walmart experienced a combined state and local income tax rate of 40% and Exxon-Mobil paid a combined tax rate of 42.7%. On the other hand General Electric and U.S. Geothermal, taking advantage of various federal energy subsidies, braved income tax rates of 5.1% and 0.0%, respectively. Commenting on inversion, President Obama, the former constitutional lawyer turned legal vigilante declared that, "I don't care if its legal, it's wrong." The President should lower the rhetoric, cut the corporate tax rate, and reduce deductions/subsidies. These actions would encourage corporations to do what is legal, ethical, and consistent with U.S. economic interests. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Weakens in July: One-Third of Bankers Indicate Corn Prices Below Breakeven

Tables 1 below summarizes the findings from this month's survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

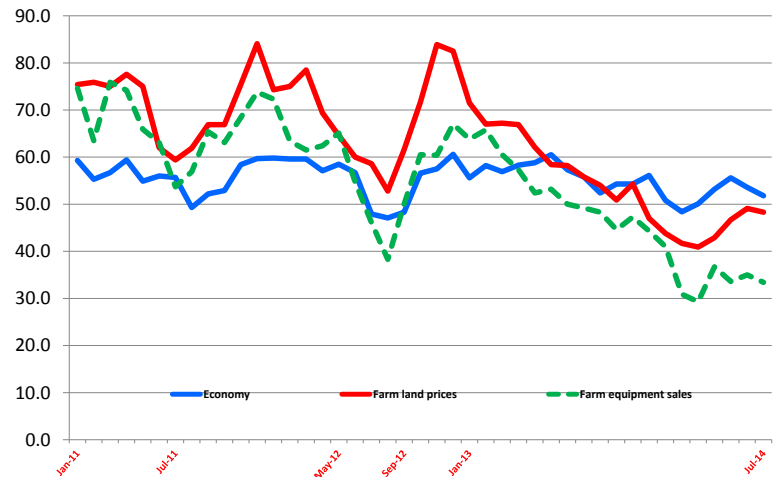
Table 1: The Mainstreet Economy	July 2013	June 2014	July 2014
Area Economic Index	57.3	53.6	51.8
Loan volume	75.7	74.6	79.8
Checking deposits	53.7	50.9	53.5
Certificate of deposits	42.0	39.4	37.8
Farm land prices	58.2	49.1	48.3
Farm equipment area sales	50.0	35.0	33.4
Home sales	76.6	66.1	64.1
Hiring in the area	60.7	63.2	59.7
Retail Business	53.1	51.8	55.4
Economy 6 months from now	56.6	55.5	42.9

Survey Results at a Glance:

- Rural Mainstreet Index falls for second straight month.

- Farmland prices decline for eighth straight month as the rate of decline quickens.
- Almost one-third of bankers reported that current crop prices are below farmers' breakeven.
- Over the past year, agriculture lending is up on average 7.1 percent among regional bankers.
- Four in ten bankers expect loan defaults to climb if crop prices remain at current levels.

Rural Mainstreet Economy January '11 – July '14



After moving below growth neutral in February, the Rural Mainstreet economy has moved above the 50.0 threshold for five straight months, according to the July survey of bank CEOs in a 10-state area. However, the index has been trending lower since June 2013 when the reading stood at 60.5.

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, with 50.0 representing growth neutral, fell to 51.8 from June's 53.6.

Agriculture commodity prices have plummeted for farmers in our region. The drop has slowed growth in the region according to our survey with prices below breakeven for a significant share of agriculture producers. I expect readings to move even lower as these lower prices spill over into the broader economy in the weeks and months ahead.

Farming and ranching: The farmland and ranchland-price index for July slumped to 48.3 from June's weak 49.1. Much weaker crop prices are definitely taking some of the air out of agriculture land prices. At this point in time, land prices appear to be moving gradually lower without significant volatility. The July farm-equipment sales index slumped to 33.4 from June's very weak 35.0. The index has been below growth neutral for 13 straight months. Farmers have certainly become more cautious in their purchase of both additional land and equipment. This is having negative impacts on implement dealers across the region.

According to a large share of bankers, crop prices, including corn, are close to or below the breakeven price for farmers. Approximately, one-third of bankers, or 31.6 percent, reported that current crop prices are below farmers' breakeven price. But as reported by Scott Tewksbury, president of Heartland State Bank in Edgeley, N.D., current spot prices for corn in his area are below \$3.00 per bushel and well below the cost of production.

As a result, more than four in 10 bankers, or 40.3 percent, expect loan defaults to climb in the year ahead if crop prices remain at current levels. However, previous strong farm economic conditions are expected to soften the impact of

current low prices. According to Todd Douglas, CEO of the First National Bank in Pierre, S.D., "A majority of agriculture borrowers have strong enough balance sheets to cover lower commodity prices for a short-term period, however, not for a sustained period."

According to Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Ill., "Cash margins and strong balance sheets will keep defaults modest for one year, but look out beyond that!" Other bankers look for the improved financial sophistication of farmers to soften the blow of lower prices. For example, Jim Ashworth, president of Carlinville National Bank in Carlinville, Ill., said, "In general, area farmers have become better at marketing their grain and hedging their price exposures than in years past."

Jeff Bonnett, president of Havana National Bank in Havana, Ill., indicated that he expects significant economic impacts from current low corn prices for rural areas if farmers do not experience a large decrease in input prices.

Banking: The July loan-volume index rose to a very healthy 79.8 from June's robust 74.6. The checking-deposit index increased to 53.5 from June's 50.9, while the index for certificates of deposit and other savings instruments dipped to 37.8 from 39.4 last month.

We have been tracking upturns in agriculture lending among bankers. This month bankers reported, on average, a 7.1 percent increase in agriculture lending over the past year. Lending is likely to continue to expand as a result of low crop commodity prices.

Hiring: Rural Mainstreet businesses continue to hire at a solid pace, though the July hiring index declined to a healthy 59.7 from June's 63.2. Despite weaker conditions in the crop farming sector, businesses in the Rural Mainstreet economy are adding jobs at a very healthy rate and well above the pace in urban areas of the region.

Confidence: The confidence index, which reflects expectations for the economy six months out, plummeted to 42.9 from last month's 55.5. Much weaker agriculture commodity negatively affected the outlook of bank CEOs and more than offset an improving outlook for livestock producers.

Home and retail sales: The July home-sales index dipped to a still healthy 64.1 from 66.1 in June. The July retail-sales index increased to 55.4 from 51.8 in June. Strong growth in home and retail sales contrasts to weaker growth at the national level in both areas.

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.

MAINSTREET ON YOUR STREET

COLORADO

Colorado's Rural Mainstreet Index (RMI) remained above the 50.0 threshold for the fifth straight month, though it dipped to 51.7 from June's 54.4. The farmland and ranchland-price index declined to 51.3 from 54.8 in June. Colorado's hiring index for

July decreased to a healthy 61.9 from 67.3 in May.

ILLINOIS

After increasing for three straight months Illinois' RMI fell, moving to 51.8 from June's 53.9. The Illinois farmland-price index sank to 41.0 from 46.6 in June. The state's new-hiring index fell to 523.7 from June's 60.8. Dirk Meminger, CEO of Sauk Valley Bank in Sterling, said, "We anticipate some carry over debt in the near term for many of our ag borrowers. It will be important that regulators remain calm as production prices adjust to current revenue levels."

IOWA

The July RMI for Iowa fell to 52.9 from June's 56.8. The state's farmland-price index for July slumped to 48.0 from June's 57.8. Iowa's new-hiring index for July declined to a healthy 62.3 from June's 73.9.

KANSAS

The Kansas RMI for July slipped to 52.0 from June's 54.4. The farmland-price index for July dropped to 50.9 from June's 54.7. The state's new-hiring index fell to a healthy 61.6 from 67.3 in June.

MINNESOTA

The RMI for Minnesota dipped to 50.5 from June's 54.3. Minnesota's farmland-price index for July June declined to 50.8 from 53.6 in June. The new-hiring index for the state decreased to 67.6 from June's 69.1. Pete Haddeland, CEO of the First National Bank in Mahanomen, said, "Our crops are looking better but a very wet spring." Also emphasizing some negative impacts from weather, Bryan Grove, CEO of American State Bank of Grygla said, "Wet conditions in our area of northwest Minnesota have adversely affected crops. Crop conditions are variable and first crop hay has been a challenge to put up."

MISSOURI

The July RMI for Missouri sank to 50.7 from June's 55.9. The farmland-price index for July fell to 48.2 from June's much stronger 57.8. Missouri's new-hiring index declined to a still solid 55.6 from June's 62.3.

NEBRASKA

The Nebraska RMI for June fell to 53.7 from May's 55.3. The state's The Nebraska RMI for July fell to 51.8 from 53.7 in June. The state's farmland-price index for July sank to 39.2 from 41.3 in June. Nebraska's new-hiring index decreased to 52.3 from June's 56.5.

NORTH DAKOTA

The North Dakota RMI for July dipped to 53.0 from June's 56.6. The farmland-price index rose to 62.3 from June's 61.1. North Dakota's new-hiring index jumped to 85.1 from June's 84.4.

SOUTH DAKOTA

The July RMI for South Dakota slipped to 52.1 from June's 56.2. The farmland-price index for July jumped to 48.4 from last month's 46.4. South Dakota's new-hiring index declined to 54.6 from 60.6 in June.

WYOMING

The July RMI for Wyoming sank to 52.2 from June's 54.2. The July farmland and ranchland-price index expanded to 53.5 from June's 47.0. Wyoming's new-hiring index for July advanced to 63.7 from June's 60.8.

THE BULLISH NEWS

- U.S. economy adds 209,000 jobs in July while the unemployment rate rose to 6.2% for the month.
- Annualized and inflation adjusted Gross Domestic Product (GDP) for the second quarter of 2014 (GDP) increased by 4.0% after falling by 2.1% in quarter one.
- The June U.S. trade deficit narrowed by 7% to \$41.5 billion as petroleum imports dropped to a 3-1/2 year low

THE BEARISH NEWS

- For July, Creighton University's Mid-America survey of supply managers and Rural Mainstreet survey of bank CEOs indicate slower but positive growth in the months ahead.
- U.S. retail sales expanded by only 0.2% for June, only slightly ahead of inflation.
- The U.S. Consumer Price Index (CPI) for June climbed by 0.3% well ahead of expectations and the Federal Reserve's target of an annual gain of 2.0%.

WHAT TO WATCH

- **Trade Embargos:** Recent Chinese trade restrictions on U.S. DDGs and agriculture trade restrictions between the U.S. and Russia significantly raise the potential of trade wars which will hurt U.S. and global economic growth.
- **Jobs:** On Friday Sept. 5, the U.S. Bureau of Labor Statistics (BLS) will release employment report for August. Another strong report (job additions above 250,000) will be bad for bond prices and yields. Also, begin to "seal the deal" for a Federal Reserve rate hike in the first quarter of 2015.
- **CPI:** On Aug. 19 and Sept 17, the Bureau of Labor Statistics releases consumer price indices for July and August, respectively. Monthly increases of more than 0.3% will encourage the Fed to begin preparing the market for a rate hike in the first quarter of 2015.

THE OUTLOOK

FROM GOSS:

- My most recent stock transactions with price/earnings ratios: Buys-ConAgra \$29.29 with P/E of 13.0; Goodyear Tire \$25.42 with P/E of 8.9; Sales-Bed Bath and Beyond \$59.06 with a P/E of 11.8.
- I expect the Federal Reserve to raise short term interest rates (the fund rate) in the first quarter of 2015. In advance of that, short term interest rates will begin to rise slightly.

OTHER FORECASTS:

- The Conference Board (August 2014): "Recent improvements in emerging economies seem to be interrupted, and downside risks to major emerging economies are on the rise. While recovery in mature

economies continues at a slower rate, for emerging economies, financial stability remains the top concern, and manufacturing sectors continue to weaken due to sluggish domestic demand. Furthermore, political instability and regional tensions have added more uncertainties to the near-term outlook."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The Justice Department is once again "shaking down" a U.S. corporate citizen. Just this month, they indicted FedEx for drug trafficking. Is FedEx supposed to do the job undone by the Drug Enforcement Agency (DEA). If convicted FedEx will pay a fine of \$1.6 billion for allegedly delivering prescription drugs that were sold by on-line pharmacies that were in violation of the Controlled Substance Act.

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