THE MAINSTREET ECONOMY REPORT

"A monthly survey of community bank CEO's"

August 2018

Trump's Economic Progress Exceeded Obama's: Less Regulation and Tax Cuts Play Important Roles

By the end of July 2018, President Trump had presided over the U.S. economy for approximately 1.5 years. Compared to President Obama's last 1.5 years, how has the Trump economy stacked up?

Overall economic growth. For the first 1.5 years of the Trump administration, the U.S. economy expanded by 4.1%, but for the last 1.5 years of the Obama Administration, the U.S. economy advanced by a much smaller 2.2%. Not only was growth significantly stronger in the Trump era, growth in the Obama Administration was trending downward in his last 1.5 years. Conversely, as growth in the Trump Administration is trending upward.

Table 1: U.S. economic performance, Trump vs. Obama

	Trump's First 1.5 years	Obama's Last 1.5 years
Overall economic growth (GDP)	4.1%	2.2%
Job growth	4.0%	4.8%
Growth in average wages	5.3%	5.0%
S&P 500 stock prices	45.4%	19.0%
Corporate profits (5 quarters only)	-7.2%	1.2%
Federal deficit as percent GDP	+6.0%	+4.2%
Change in unemployment rate (percentage points)	-0.9	-0.5
Number of persons receiving food stamps	-12.3%	-1.3%

Sources: U.S. BEA, U.S. BLS, Yahoo.com, U.S.D.A.

As shown above, the economic performance of the Trump Administration surpassed that of the Obama Administration across all metrics except the growth in jobs, corporate profits, and the expansion in the federal deficit.

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 are pushing most economic metrics in a more favorable direction than experienced during the 1.5 years before Trump took office.

MAINSTREET RESULTS

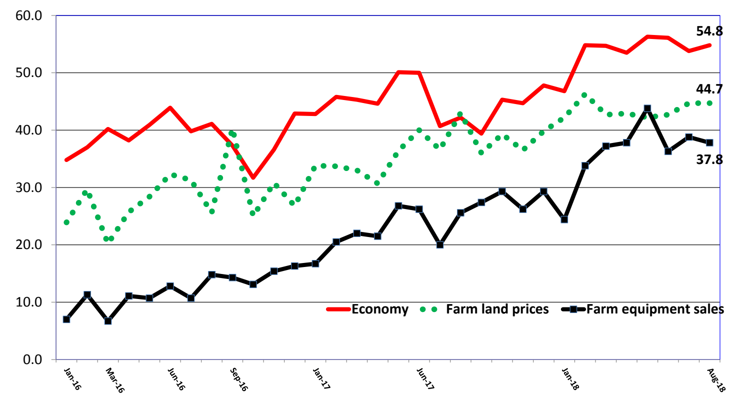
Rural Mainstreet Economy Sank for July: More Than 3 of 5 Bankers Report Negatives from Trade Skirmishes

Survey Results at a Glance:

- FFor a sixth straight month the overall index rose above growth neutral.
- Almost one-third of bank CEOs recommended that the Federal Reserve leave short term interest rates at their current levels for the rest of the year.
- More than three of five, or 78 percent, of bank CEOs reported that current trade skirmishes and rising tariffs have had a negative impact on their local economy.
- Approximately 75.6 percent of bankers reported negative impacts of trade rifts and tariffs on grain farmers in their area.
- Economic confidence plummeted among bankers for the month.

Table 1: The Mainstreet Economy	Aug 2017	July 2018	Aug 2018
Area Economic Index	42.2	53.8	54.8
Loan volume	77.8	76.9	72.2
Checking deposits	46.7	37.8	36.0
Certificate of deposits	46.7	43.9	48.8
Farm land prices	43.0	44.7	44.7
Farm equipment area sales	25.6	38.8	37.8
Home sales	62.5	65.9	63.1
Hiring in the area	51.1	65.6	68.7
Retail Business	41.1	51.2	53.5

Rural Mainstreet, Economic Indicators, Jan. 2016 – August 2018
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index climbed above growth neutral in July for a sixth straight month, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. This is the first time since July 2014 survey that the overall index has risen above growth neutral for six straight months.

Overall: The overall index slid to 53.8 from 56.1 in June. The index ranges between 0 and 100 with 50.0 representing growth neutral.

Surveys over the past several months indicate the Rural Mainstreet economy is solid but with less positive economic growth. However, the negative impacts of recent trade skirmishes have begun to surface with weakening already anemic grain prices.

Pete Haddeland, CEO of the First National Bank in Mahnomen, Minnesota, said, "Grain prices are at, in some cases, 10-year lows. Not good."

According to Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Illinois, "The trade issues/tariffs have been devastating on our local dairy industry when tacked on top of already below cost or breakeven milk prices."

Farming and ranching: The farmland and ranchland-price index for June rose to a weak 44.7 from June's 42.7. This is the 56th straight month the index has fallen below growth neutral 50.0.

The July farm equipment-sales index increased to 38.8 from June's 36.3. This marks the 59th consecutive month the reading has moved below growth neutral 50.0.

Many bankers reported good, or above average rainfall, with crops production off to a good start. Furthermore, in portions of the region, recreation industry was boosting the economy.

Banking: Borrowing by farmers expanded for July as the loan-volume index rose slightly to 76.9 from 76.3 in June. The checking-deposit index slumped to 37.8 from June's 41.7, while the index for certificates of deposit and other savings instruments slid to 43.9 from 47.6 in June.

This month bankers were asked, "How many times should the Federal Reserve raise interest rates for the rest of 2018?" "Almost one-third, or 30 percent of bank CEOs recommended keeping rates at their current level, 45 percent suggested one additional interest rate increase, 20 percent supported two additional rate hikes and five percent recommended three more rate increases for 2018.

Hiring: The employment gauge improved to a very strong 65.6 from June's 58.0. The Rural Mainstreet economy is now experiencing positive job growth.

Confidence: The confidence index, which reflects expectations for the economy six months out, sank to 42.7 from June's 48.8, indicating plummeting economic optimism among bankers. Just as last month, an unresolved North America Free Trade Agreement (NAFTA) and rising trade tensions/tariffs with China continue to be a concern.

Bankers were asked to gauge the impact of current rising trade skirmishes and tariffs. More than three of five, or 78 percent, reported that these actions have had a negative impact on their local economy. Approximately 75.6 percent reported negative impacts on grain farmers.

Home and retail sales: The home-sales index soared to its highest level in almost three years to 65.9 from 60.7 for June. Retail sales improved for the month to 51.2 from June's 47.6.

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 (RMI) for July fell to 57.3 from 59.5 in June. The farmland and ranchland-price index slipped to 43.2 from June's 44.0. Colorado's hiring index for July rose to 60.8 from June's 59.5. Colorado's Rural Mainstreet job growth over the last 12 months was 3.0 percent.

ILLINOIS
The July RMI for Illinois increased to 57.9 from 57.0 in June. The farmland-price index was unchanged from June's 43.0. The state's new-hiring index rose to 61.2 from last month's 59.4. Illinois' Rural Mainstreet job growth over the last 12 months was 1.9 percent.

IOWA
The July RMI for Iowa climbed to 56.0 from 55.9 in June. Iowa's farmland-price index for July declined to 42.1 from June's 42.6. Iowa's new-hiring index for July fell to 50.1 from June's 54.8. Iowa's Rural Mainstreet job growth over the last 12 months was minus 1.0 percent.

KANSAS
The Kansas RMI for July climbed to 56.9 from June's 56.4. The state's farmland-price index increased to 43.0 from 41.2 in June. The new-hiring index for Kansas dipped to 58.8 from 58.9 in June. Kansas's Rural Mainstreet job growth over the last 12 months was 2.9 percent.

MINNESOTA
The July RMI for Minnesota dipped to 54.8 from June's 55.3. Minnesota's farmland-price index slipped to 42,1 from 42.3 in June. The new-hiring index fell to 50.4 from June's 52.6. Minnesota's Rural Mainstreet job grow over the last 12 months was minus 2.6 percent.

MISSOURI
The July RMI for Missouri fell to 58.7 from 59.4 in June. The farmland-price index declined to 43.7 from June's 44.0. Missouri's new-hiring index for July declined to 66.1 from June's 68.8. Missouri's Rural Mainstreet job growth over the last 12 months was 0.4 percent.

NEBRASKA
The Nebraska RMI for July climbed to 56.3 from June's 55.9. The state's farmland-price index increased to 43.7 from last month's 42.6. Nebraska's new-hiring index rose to 56.5 from 55.0 in June. Nebraska's Rural Mainstreet job growth over the last 12 months was 1.1 percent.

NORTH DAKOTA
The North Dakota RMI for July advanced to 51.2 from June's 51.0. The state's farmland-price index moved slightly higher to 40.7 from 40.6 in June. The state's new-hiring index increased to 36.3 from 35.2 in June. North Dakota's Rural Mainstreet job growth over the last 12 months was minus 2.8 percent.

SOUTH DAKOTA
The July RMI for South Dakota remained above growth neutral and increased to 56.3 from June's 56.2. The state's farmland-price index was unchanged from June's 42.7. South Dakota's new-hiring index climbed to 56.5 from 56.2 in June. South Dakota's Rural Mainstreet job growth over the last 12 months was 1.5 percent

WYOMING
The July RMI for Wyoming fell to 57.1 from June's 58.2. The July farmland and ranchland-price index sank to 43.1 from June's 43.7. Wyoming's new-hiring index improved slightly to 59.9 from June's 59.4. Wyoming's Rural Mainstreet job growth over the last 12 months was minus 0.9 percent

THE BULLISH NEWS

- The nation added 157,000 jobs in July as the unemployment rate dipped to 3.9%.
- Housing prices were up 6.4% in May from 12 months earlier. Supply constraints continue to push price growth at a pace that is diverging from much slower income growth. In May, the housing affordability index fell to its lowest level in 10 years.

THE BEARISH NEWS

- The U.S. trade deficit expanded in June as exports fell and imports climbed.
- For the first nine months of fiscal 2018, the nation's budget deficit widened by 16% compared to the same period in fiscal 2017.

WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for August on September 13. An annualized increase above 2.5% will be bearish for bond prices (rising yields, falling prices).
- **Inverted yield:** Marketwatch.com provides contemporaneous yields on the 2-year and 10-year U.S. Treasury bonds. Every recession since 1980 has been preceded by 2-year rates exceeding 10-year rates (termed an inverted yield). Currently 30 basis points (0.30%).
- **Wage Data for July**: On September 7, the U.S. Bureau of Labor Statistics will release wage data for August. Year over year growth approaching 3.0% will be a strong inflation signal (more interest rate increases from the Fed).

STATISTIC OF THE MONTH

- 95. The nation's affordability index declined to 95, its lowest level in 10 years as higher mortgage rates, rising building costs, and lack of supply pushed prices up faster than income. The U.S. median home price in June was a record $276,900.

THE OUTLOOK

FROM GOSS:

- I expect **the next Federal Reserve rate hike on September 26 (0.25% or 25 basis points); **mortgage rates to climb by another ¼% by the end of 2018. ***GDP growth to slow in the second half of 2018. ***annualized growth in the consumer price index (CPI) to exceed 3% in Q4, 2018.

OTHER FORECASTS:

- **NABE Business Conditions Survey (July 2018):** "The results of the July 2018 NABE Business Conditions Survey indicate strong sales and steady profit margins in the second quarter of 2018, as well as increasing materials costs and wages," said NABE Business Conditions Survey Chair Sara Rutledge, independent real estate economist and data science research fellow at StratoDem Analytics. "All panelists expect continued economic growth over the next 12 months, with most panelists anticipating inflation-adjusted gross domestic product— real GDP growth—to exceed 2%. Labor market conditions are tight, with skilled labor shortages driving firms to raise pay, increase training, and consider additional automation"

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The latest data show that approximately 50% of able-bodied food stamp recipients age 18-55 reported working zero hours. In House version of the latest Food Stamp Bill (part of the Farm Bill), anyone between 18 and 59-years-old, who is not disabled and doesn't have kids under 6, would have to work at least 20 hours each week, or undertake at least 20 hours of training. Unfortunately, this element of the bill was not passed by the Senate, and will die in conference committee.

BANKER READING ROOM

ICBA Sends Report on Credit Union Growth to Congress. August 7, 2018. ICBA sent to Congress a recent article on Pentagon Federal Credit Union's plan to triple its asset size from $23 billion to $75 billion by 2025. The Wall Street Journal report notes that PenFed has also hired McKinsey & Co. for advice and that even other credit union executives are warning against the industry's "anything goes" approach. The report follows ICBA's recent four-part series of messages to members of Congress showing how the credit union industry's evolution has put its tax exemption at risk and why lawmakers should re-examine the outmoded subsidy.

https://www.icba.org/news/news-details/2018/08/07/icba-sends-report-on-credit-union-growth-to-congress

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