THE MAINSTEET ECONOMY REPORT

December 2017

"A monthly survey of community bank CEO's"

Death and (No) Taxes for Super Rich: Give Gains to Charitable Foundations

Recently George Soros transferred more than $18 billion of his accumulated wealth to a private foundation that he controls. By so doing, he has escaped paying taxes on the appreciated value of the assets forever. The super-rich, such as Soros and Warren Buffett, that head corporations, can take a yearly salary that is in a range whereby they pay income tax rates equivalent to that of middle income Americans. Furthermore, they have access to corporate private jets, and other tax-deductible benefits unavailable to most middle-income Amer-icans. All the while, the value of the ownership of shares of their company grows untaxed. But instead of selling the appreciated shares and incur capital gains taxes, the super-rich give the shares to private foundations, thus the income is forever untaxed.

For example, in 2017, Buffett donated 18.63 million Berkshire "B" shares valued at $170.25 per share with a tax basis of roughly $58.71 to the Gates Foundation. Thus in 2017 alone, Buffett will avoid paying capital gains taxes of $141 million to Nebraska, and $463 million to the federal government. In the end, Mr. Buffett intends to donate more than $50 billion in appreciated stock to private foundations. Mr. Buffett ridiculed the current tax system that taxes his secretary at a higher rate that he pays. To rectify this injustice, he proposed that the capital gains tax be raised to 50%. But elevating the rate would have no tax impact on his accumulated stock wealth.

In the end, the current U.S. tax law allows death with (almost) no taxes for the super-rich. A potential remedy is to limit the amount of appreciated stock that may be gifted without taxes. As stated by novelist F. Scott Fitzgerald to fellow writer Ernest Hemingway, "You know Ernest, the rich are different from you and me." To which Hemingway responded, "Yes they have more money." To be an even bigger wiseacre, Hemingway might have added "and the ability to die without taxes, Scott." Ernie Goss.

MAINSTREET RESULTS

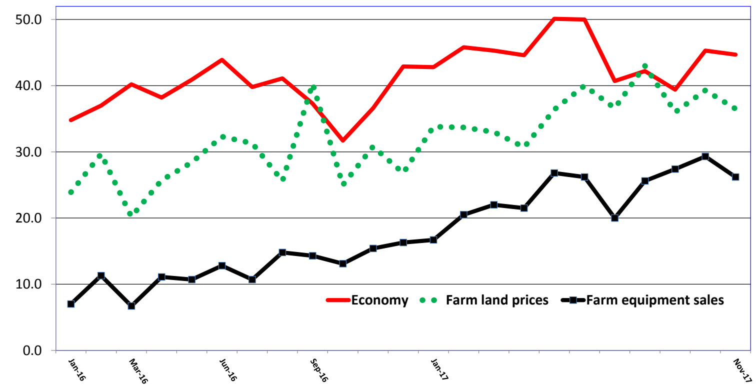
Rural Mainstreet Index Indicates Economic Weakness: More Than One-Half of Bankers Boosted Farm Loan Collateral Requirements

Table 1: The Mainstreet Economy	Nov 2016	Oct 2017	Nov 2017
Area Economic Index	36.6	45.3	44.7
Loan volume	52.4	67.9	49.1
Checking deposits	67.1	54.8	59.4
Certificate of deposits	46.4	44.1	44.8
Farm land prices	30.8	39.3	36.5
Farm equipment area sales	15.4	29.3	26.2
Home sales	58.8	52.5	56.6
Hiring in the area	52.5	57.3	57.6
Retail Business	37.8	39.3	40.7

Survey Results at a Glance:

- The overall index slipped from October's weak reading and remained below growth neutral.
- The farmland price index fell below growth neutral for the 48th straight month.
- Approximately 22.5 percent of bankers increased farm loan rejection rates with the fall in farm income.
- More than one-half, or 53.1 percent of bank CEOs, boosted farm loan collateral requirements as farm in-come has weakened.
- The percentage of bankers projecting next year livestock revenues greater than costs fell to 9.2 percent from 18.9 percent reported last year at this time.

Rural Mainstreet, Economic Indicators, Jan. 2016 – November 2017
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index dipped from October's weak and remained below growth neutral, according to the latest monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The index, like all indices in the survey, ranges between 0 and 100, slipped to 44.7 from 45.3 in October.

Since peaking in 2013, farm commodity prices have declined by approximately 17 percent and U.S. farm income has fallen for four straight years. Not surprisingly, Creighton's overall Rural Mainstreet Index has risen above growth neutral only three times in the past three years..

Jeff Bonnett president of Havana. National Bank in Havana, Ill. "Many of our farm customers experi-enced record yields with this year's harvest. Like them, we are all hoping that this is enough to offset the yet again low commodity prices that challenge the Ag economy today."

Bankers were asked how their bank has responded to the downturn in farm income. More than half, or 53.1 percent, reported increasing collateral requirements for farm loans; More than one in five, or 22.5 percent, indicated that their bank had rejected a higher percent of farm loan applications. However, ap-proximately one-third, or 34.7 percent, reported no change in farm loan terms and requirements.

Farming and ranching: The farmland and ranchland-price index for November fell to 36.5 from 39.3 in October. This is the 48th straight month the index has fallen below growth neutral 50.0.

Bankers were asked to project 2018 earnings for livestock producers. Approximately 9.2 percent project-ed negative cash flows for next year. This is roughly one-half of projections of negative cash flows for 2017 estimated in November 2016.

According to Todd Douglas, CEO of the First. National Bank in

Pierre, S.D, "We see some intermediate debt restructure and expense control to make sure they (livestock producers) can operate with a positive cash flow based on real commodity prices. Most have enough room on their balance sheets to handle a short term commodity downturn but at some point every operator will be negatively affected.

The November farm equipment-sales index sank to 26.2 from October's 29.3. This marks the 51st con-secutive month the reading has dropped below growth neutral 50.0.

Banking: Borrowing by farmers plummeted for November as the loan-volume index stood at 49.1 from 67.9 in October. The checking-deposit index rose to 59.4 from October's 54.8, while the index for certifi-cates of deposit and other savings instruments advanced to a weak 44.8 from 44.1 in October.

Hiring: The employment gauge climbed to 57.6 from October's 57.3. Rural Mainstreet businesses not linked to agriculture increased hiring for the month, and at a faster pace than in October.

Confidence: The confidence index, which reflects expectations for the economy six months out, in-creased to a weak 40.6 from 37.0 in October, indicating a continued pessimistic outlook among bankers. Concerns about trade, especially current NAFTA negotiations, and low agriculture commodity prices im-paired bankers' economic outlook.

Home and retail sales: The home-sales index moved higher for the Rural Mainstreet economy for No-vember, rising to 56.6 from October's 52.5. The November retail-sales index improved slightly to 40.7 from 39.3 in October. Much like their urban counterparts, Rural Mainstreet retailers are experiencing sig-nificant 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) improved to 44.8 from 42.1 in October. The farmland and ranchland-price index expanded to 49.5 from October's 49.0. Colorado's hiring index for November climbed to 58.0 from October's 55.9.

ILLINOIS
The November RMI for Illinois decreased to 44.8 from 45.1 in October. The farmland-price index rose to 36.5 from 35.1 in October. The state's new-hiring index rose to 58.1 from last month's 56.6. Jim Eckert, president of Anchor State Bank in Anchor said, "Surprisingly, based on poor rains in our area, most of the corn crop was as good, or a little better than, last year's bumper crop. Soybeans yields were 10-15 percent below 2016, due to lack of rain in August and September."

IOWA
The November RMI for Iowa slipped to 45.1 from 45.6 in October. Iowa's farmland-price index for November increased to 36.6 from October's 36.0. Iowa's new-hiring index for November expanded to 58.7 from October's 56.9.

KANSAS
The Kansas RMI for November fell to 39.2 from October's 42.2. The state's farmland-price index sank to 34.8 from 37.2 in October. The new-hiring index for Kansas increased to 46.8 from October's 43.6.

MINNESOTA
The November RMI for Minnesota fell to 44.2 from 50.9 in November. Minnesota's farmland-price index declined to 36.3 from 39.6 in October. The new-hiring index for the state decreased to 56.8 from October's 59.7. Lonnie Clark, president of State Bank of Chandler in Chandler reported that, "Crop input costs reluctantly beginning to drop, cash rents starting to drop, seed prices remain resistant to price drop."

MISSOURI
The November RMI for Missouri advanced to a solid 56.8 from 49.2 in October. The farmland-price index slipped to 40.1 from 40.9 in October. Missouri's new-hiring index declined to a still healthy 61.2 from 74.7 in October.

NEBRASKA
The Nebraska RMI for November declined to 45.6 from October's 45.9. The state's farmland-price index dipped to 36.8 from last month's 39.7. Nebraska's new-hiring index stood at a strong 59.6, but down slightly from 60.0 in October.

NORTH DAKOTA
The North Dakota RMI for November increased to 50.5 from October's 47.9. The state's farmland-price index moved lower to 38.2 from 41.0 in October. North Dakota's new-hiring index expanded to 69.3 from 66.5 in October.

SOUTH DAKOTA
The November RMI for South Dakota slumped to 39.6 from 43.8 in October. The state's farmland-price index decayed to 35.0 from 38.3 in October. South Dakota's new-hiring index slumped to 47.7 from October's 50.9. According to Todd Douglas, CEO of the First National Bank in Pierre, "Most (livestock producers) have enough room on their balance sheets to handle a short term commodity downturn but at some point every operator will be negatively affected."

WYOMING
The November RMI for Wyoming slipped to 42.9 from 44.7 in October. The November farmland and ranchland-price index weakened to 36.0 from 38.3 in October. Wyoming's new-hiring index slipped to 54.2 from October's 54.9.

THE BULLISH NEWS

- The U.S. non-farm payroll expanded by 228,000 in November and the unemployment rate remained at 4.1%, a 16-year low.

- From November 2016 to November 2017, average hourly wages grew by 2.5% to $26.55 per hour. Not great, but improving.
- Over the last 12 months, the consumer price index (all items) jumped by 2.0% (a Goldilocks economy, not too hot, not too cold?)

THE BEARISH NEWS

- For November, the labor participation rate, the percentage of those over age 16 who are available for work and working or looking for work was unchanged at 62.7% (not this low since 1970s).
- The U.S. budget deficit rose to $63 billion deficit in October as Washington ramped up spending. The government boosted outlays in October to $299 billion, up $31 billion from the same month of last year.

WHAT TO WATCH

- **Bitcoin Futures Dec. 9:** The first U.S. bitcoin futures began trading Dec. 9. Keep an eye on these futures for increasing market volatility. Actual bitcoin prices recently soared above $19,000 then proceeded to drop by 20%. Lots of room for profits and losses for the gambler. Want to add some rocket fuel to your stock portfolio?
- **Consumer Price Index (CPI) on Jan. 12:** The Bureau of Labor Statistics will release the inflation gauge for December. An annualized increase above 2.5% will be bullish for stock prices and bearish for bond prices (rising yields, falling prices).
- **Case-Shiller Home Price Index on Dec. 26**: On the last Tuesday of December, S&P Corelogic will release its Case-Shiller home price index for October. Home prices have been rising by over 5.0% (annualized) since November 2015. Air will continue to inflate this bubble.

THE OUTLOOK

FROM GOSS:

- I expect **two more Federal Reserve rate hikes by the end of 2018 (0.50% bases points); **a pickup in home prices as building supply prices are boosted by the Florida and Houston post-hurricane rebuilding. ***long-term interest rates to rise by 0.2% - 0.3% by the end of Q1, 2018.

OTHER FORECASTS:

- **National Association of Business Economics (NABE), Dec. 2017, Highlights:** "The median forecasts for average annual inflation-adjusted gross domestic product growth (real GDP growth) are 2.2% for 2017 and 2.5% for 2018—compared with 2.2% and 2.4% in the September survey. On a fourth-quarter-to-fourth-quarter basis, real GDP growth is expected to be 2.5% in 2017 and 2.4% in 2018. The median forecast for fourth-quarter 2017 real GDP growth is 2.7%, higher than the September forecast of 2.5%. The median forecast for the year-end 2017 midpoint of the federal funds target range of 1.375% is unchanged from the September forecast, implying one more 25-basis-point rate hike at the Federal Open Market Committee's December meeting. The forecast for 2018 implies a flatter anticipated interest rate trajectory than in the previous survey, with a year-end rate of 1.983%, compared to the 2.125% projected in September. The quarterly path for the median federal funds rate projections for 2018 anticipates no rate hike in March and three increases in June, September, and December."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Some U.S. political leaders have hastily called for eliminating the nation's trade deficit. There is one sure-fire way to reduce, and potentially eliminate the nation's trade deficit----suffer an economic recession. During a recession, U.S. consumers reduce their purchases of foreign goods, and the U.S. dollar normally declines making foreign goods more expensive. Historically, a larger trade deficit is one the outcomes of a strong U.S. economy.

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This month's survey results will be released on the third Thursday of the month, November 16.