THE MAINSTREET ECONOMY REPORT

"A monthly survey of community bank CEO's"

February 2019

Who Pays for the Green New Deal (GND)? Income Tax Rates and Income Inequality Rise

Democrats, including presidential candidates Senators Warren, Harris, and Booker, have endorsed the Green New Deal (GND), a federal spending program to address income inequality, and climate change and estimated to cost between $2 trillion and $5.7 trillion. New York Democrat Representative Alexandria Ocasio-Cortez (AOC) seeks to include basic income programs and universal health care programs into GND thus pushing the cost of the program to the higher estimates.

Rep. AOC also advocates a 70% tax on high income earners to pay for this diverse program. She argues, incorrectly, that this would return tax brackets to the pre-Reagan tax cuts. According to the Tax Foundation, the latest income tax data show that the top 50% of income earners paid 97.3% of income taxes with the bottom half of income earners paying only 2.7% of income tax collections. Furthermore, the top 1% of income earners paid an individual income tax rate of 27.1%, which was more than seven times higher than that of the bottom 50% of earners that had an average individual income tax rate of 3.5%. Thus, a tax to support the GND that differentially supports low, and middle-income taxpayers would further distort a tax system that already punishes educational achievement, innovation, and entrepreneurship which lead to income growth.

The GND list includes goals like "eliminating greenhouse gas emissions from the manufacturing, agricultural and other industries" and "meeting 100% of national power demand through renewable sources by 2030." Contrary to its advocates' rhetoric, an increase in income tax rates on high incomes will increase, not reduce income inequality. In 1980, the top 10% of income earners paid 49.3% of total individual income tax collections, while the bottom 50% paid 7.1% of collections. More than three decades later, the share of income taxes paid by the top 10% soared to 70.9%, as the bottom half's share sank to 2.8%. What happened to income inequality during that time span? As measured by the Gini coefficient, income inequality climbed by 12%. Thus, empirical economic data indicate that the proposed GND will increase taxes, discourage educational attainment, and increase income inequality

MAINSTREET RESULTS

Rural Mainstreet Index Falls for January: More Than Forty Percent See Loan Defaults Biggest 2019 Challenge

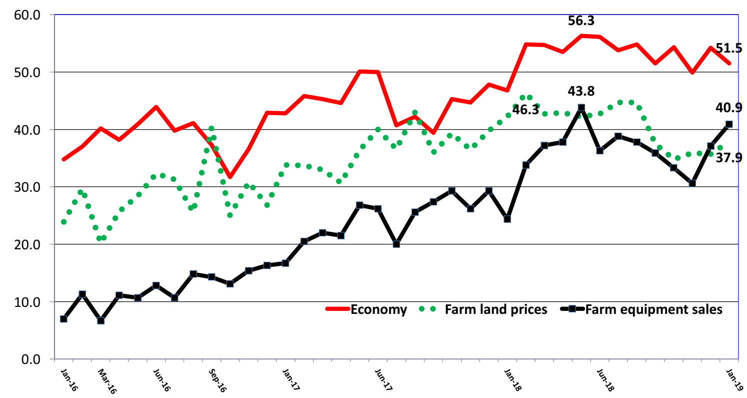
January Survey Results at a Glance:

- Overall index moves above growth neutral for the 11th time in past 12 months.
- More than four of 10 bank CEOs expect farm loan defaults to be biggest 2019 challenge.
- More than one third of bankers support the Federal Reserve holding on 2019 rate hikes.
- Only 22.9 percent, or slightly more than one in five, bankers reported expanding economic conditions in their area.

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.

Table 1: The Mainstreet Economy	Jan 2018	Dec 2018	Jan 2019
Area Economic Index	46.8	54.2	51.5
Loan volume	54.4	72.2	55.8
Checking deposits	57.8	55.6	67.6
Certificate of deposits	43.5	55.4	47.1
Farm land prices	42.2	35.7	37.9
Farm equipment area sales	24.4	37.1	40.9
Home sales	51.2	47.2	45.7
Hiring in the area	50.0	57.1	55.7
Retail Business	43.5	58.3	52.9

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



Overall: The overall index sank to 51.5 from December's 54.2. This was the 11th time in the past 12 months the index has remained 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 January increased to 37.9 from 35.7 in December. This is the 62nd straight month the index has fallen below growth neutral 50.0.

The January farm equipment-sales index climbed to 40.9 from December's 37.1. This marks the 65th consecutive month that the reading has remained below growth neutral 50.0.

Banking: Borrowing by farmers for January was strong as the borrowing index declined to 55.8 from December's 72.2. The checking-deposit index expanded to 67.6 from December's 55.6 while the index for certificates of deposit and other savings instruments sank to 47.1 from 55.6 in December.

Hiring: The employment gauge fell to a still solid 55.7 from December's 57.1. The Rural Mainstreet economy is now experiencing healthy job growth. Over the past 12 months, the Rural Mainstreet economy added jobs at a 0.9 percent pace compared to a higher 1.4 percent for urban areas of the same 10 states.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, climbed to a still anemic 45.7 from December's 44.3, indicating a pessimistic economic outlook among bankers.

Tariffs, trade tensions, weak agriculture commodity prices and the partial federal government shutdown negatively influenced the economic outlook of bank CEOs.

Home and retail sales: The home-sales index decreased to 45.7 from 47.2 in December. Retail sales sank to 52.9 from December's stronger 58.3.

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 January declined to 51.6 from 53.9 in December. The farmland and ranchland-price index rose to 38.1 from December's 35.7. Colorado's hiring index for January climbed to 56.2 from December's 55.7. Over the past 12 months, Colorado's Rural Mainstreet economy added jobs at a 1.2 percent pace, while urban areas in the state increased jobs by 2.6 percent.

ILLINOIS

The January RMI for Illinois fell to 52.2 from 54.9 in December. The farmland-price index climbed to 38.3 from December's 36.2. The state's new-hiring index declined to 58.5 from last month's 59.9. Illinois' Rural Mainstreet economy added jobs at a 1.5 percent pace, while urban areas in the state increased jobs by 0.9 percent.

IOWA

The January RMI for Iowa rose to 54.2 from December's 53.7. Iowa's farmland-price index increased to 37.8 from December's 35.6. Iowa's new-hiring index for January sank to 53.4 from 54.8 in January. Over the past 12 months, Iowa's Rural Mainstreet economy added jobs at a 0.5 percent pace, while urban areas in the state increased jobs by 1.6 percent.

KANSAS

The Kansas RMI for January declined to 51.9 from December's 54.6. The state's farmland-price index inched upward to 38.2 from 36.0 in December. The new-hiring index for Kansas decreased to 57.3 from 58.5 in December. Over the past 12 months, Kansas's Rural Mainstreet economy added jobs at a 1.4 percent pace, while urban areas in the state increased jobs by an identical 1.4 percent.

MINNESOTA

The January RMI for Minnesota dipped to 50.1 from December's 52.8. Minnesota's farmland-price index improved to a still weak 37.5 from 35.3 in December. The new-hiring index for January slipped to 50.2 from December's 51.4. Over the past 12 months, Minnesota's Rural Mainstreet economy lost jobs at a pace of minus 0.6 percent, while urban areas in the state increased jobs by 1.6 percent.

MISSOURI

The January RMI for Missouri sank to 53.5 from 56.7 in December. The farmland-price index for the state increased to 38.9 from December's 36.8. Missouri's new-hiring index for January plummeted to 55.8 from December's 66.9. Over the past 12 months, Missouri's Rural Mainstreet economy added jobs at a 5.2 percent pace, while urban areas in the state increased jobs by 0.9 percent.

NEBRASKA

The Nebraska RMI for January sank to 50.9 from December's 53.7. The state's farmland-price index rose to 47.8 from last month's 35.7. Nebraska's new-hiring index fell to 53.4 from December's 54.9. Over the past 12 months, Nebraska's Rural Mainstreet economy added jobs at a 0.2 percent pace, while urban areas in the state increased jobs by 1.8 percent.

NORTH DAKOTA

The North Dakota RMI for January fell to 51.8 from December's 54.5. The state's farmland-price index increased to 38.2 from 37.9 in December. The state's new-hiring index declined to 57.0 from 58.3 in December. Over the past 12 months, North Dakota's Rural Mainstreet economy added jobs at a 2.0 percent pace, while urban areas in the state increased jobs by 0.7 percent.

SOUTH DAKOTA

The January RMI for South Dakota remained above growth neutral and increased to 55.0 from December' 54.9. The state's farmland-price index fell to 34.5 from December's 37.1. South Dakota's new-hiring index fell to 58.2 from 59.7 in December. Over the past 12 months, South Dakota's Rural Mainstreet economy added jobs at a 1.5 percent pace, while urban areas in the state increased jobs by 2.5 percent.

WYOMING

The January RMI for Wyoming declined to 53.4 from December's 56.1. The January farmland and ranchland-price index increased to 38.8 from 36.6 in December. Wyoming's new-hiring index fell to 63.5 from 64.7 in December. Over the past 12 months, Wyoming's Rural Mainstreet economy added jobs at a 3.3 percent pace, while urban areas in the state increased jobs by 1.1 percent.

THE BULLISH NEWS

- In January, the U.S. economy added 304,000 jobs, and the unemployment rate rose to a still healthy 4.0%
- Over the past 12 months ending in January, U.S. hourly wages climbed by 3.2% to $27.56. This is the fastest growth in nine years.
- The national and Creighton January surveys of manufacturers points to solid but slower growth through the second quarter of 2019.
- More and more Americans are entering the workforce pushing the labor force participation to 63.2% in January.

THE BEARISH NEWS

- The 2018 U.S. trade deficit with China soared to a record due to growth in U.S. imports from China.
- The Congressional Budget Office Report predicts a $118 billion increase over last year's $779 billion deficit.

WHAT TO WATCH

- **Consumer Price Index for December:** The U.S. Bureau of Labor Statistics will release the CPI for January on February 13. Year-over-year growth between 1.9% and 2.2% will be in the "sweet spot."
- **Inverted yield:** Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently 18 basis points (0.18%), and too low for comfort.
- **Wage Data:** On March 8, the U.S. Bureau of Labor Statistics will release wage data for February. Year-over-year growth above 3.3% will be a strong inflation signal, and encourage the Fed to raise in the first half of 2019.

STATISTIC OF THE MONTH

- $33,800. This is the average student debt owed by Americans age 60-69 in 2017.

THE OUTLOOK

FROM GOSS:

- I expect **the Federal Reserve to forego interest rate increases until the middle of 2019. **GDP growth to slow in the first half of 2019 to 1.9% to 2.2%. ***annualized growth in the consumer price index (CPI) to exceed 2.0% in Q1, 2019.

OTHER FORECASTS:

- **National Association of Business Economics (NABE). SUMMARY:** ""The results of the January 2019 NABE Business Conditions Survey indicate that most respondents do not expect a recession within the next 12 months, but fewer respondents than previously expect robust economic growth in the year ahead," said NABE Business Conditions Survey Chair Sam Kyei, CBE, chief economist, SAK Economics LLC. "Respondents are nearly unanimous that growth in inflation-adjusted gross domestic product—real GDP—would remain positive through the end of 2019. Two-thirds of respondents expect growth to exceed 2%, however, that share is smaller than the 90% of respondents in the previous survey—which covered the outlook from the third quarter of 2018 to the third quarter of 2019. "After a year of robust capital spending, business investment has cooled a bit, and expectations for the next three months slackened similarly," added NABE President Kevin Swift, CBE, chief economist, American Chemistry Council.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- In 2009 and 2011, Falmouth, Mass. broke ground on two wind turbines on 314 acres of city land investing $10 million of taxpayer dollars. Both turbines recently closed due to noise pollution. Falmouth taxpayers will spend the next 11 years paying off $3.6 million in bonds, and another $5 million in contractual obligations.

BANKER READING ROOM

""Elizabeth Warren's Bigger Banks," The Wall Street Journal Editorial Board, Feb. 8, 2019. "Massachusetts Sen. Elizabeth Warren is claiming that the proposed marriage of BB&T and SunTrust vindicates her warnings that bank deregulation will create more too-big-to-fail banks. In reality the merger provides more evidence of how Dodd-Frank's too-big-to-fail architecture, which Sen. Warren favors, has driven big banks to get bigger and why we need high capital firewalls. Read More at: https://tinyurl.com/ydeevvbf

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