THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

July 2014

Piketty's Taxing the Rich More Heavily Doesn't Help Poor: Education Does

Thomas Piketty's New York Times best-selling book, Capital in the Twenty-First Century has cre-ated quite a stir among armchair economists, sociologists and politicians. Among Piketty's most em-braced, rebuked and guileless recommendations for reducing income inequality is to raise income taxes on high income earners. U.S. tax collection data since 1996 crush the soundness of this proposal. In 1996, taxpayers earning more than $200,000 paid an average tax rate that was three times that of work-ers making less than $50,000, and two times that of taxpayers earning between $50,000 and $200,000. By 2011, those making more than $200,000 paid almost seven times the average tax rate of taxpayers earning less than $50,000, and 2.5 times that of workers earning between $50,000 and $200,000. Fur-thermore between 1996 and 2011, the bottom half of income earners' portion of total federal income tax collections dropped from approximately 10.0% to 2.5%. During this period, the degree of income ine-quality rose as measured by the Gini Coefficient. With a higher Gini Coefficient indicating greater ine-quality the expansion in the U.S. Gini Coefficient from 39.3 in 1996 to 47.7 in 2011 indicates significant expansion in income inequality. If taxing the rich more heavily does not reduce income inequality, what does? Education! In 2011, the ten states with the greatest degree of income equality had a high school graduation rate of 90.7% and the ten states with the greatest degree of inequality, had a much lower high school graduation rate of 59.1%. Furthermore, the latest U.S. employment data show that high school dropouts have an unemployment rate almost three times that of college graduates, and average annual earnings that are roughly 42.6 percent that of college graduates. Reduce income inequality, don't dropout! Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Weakens in June: Sale of Farmland to Nonfarm Investors Declines

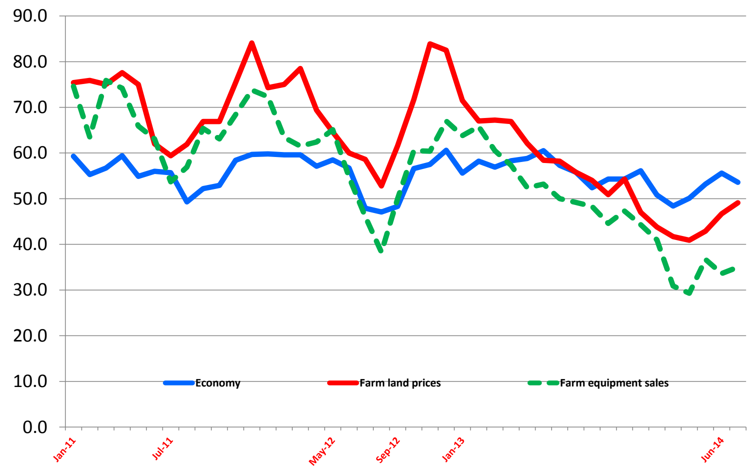
Tables 1 below summarizes the findings from this month's survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	June 2013	May 2014	June 2014
Area Economic Index	60.5	55.6	53.6
Loan volume	66.7	75.4	74.6
Checking deposits	48.5	54.8	50.9
Certificate of deposits	33.6	40.3	39.4
Farm land prices	58.4	46.7	49.1
Farm equipment area sales	53.2	33.6	35.0
Home sales	78.1	63.9	66.1
Hiring in the area	61.4	64.0	63.2
Retail Business	53.9	51.7	51.8
Economy 6 months from now	60.0	51.6	55.5

Survey Results at a Glance:

- Rural Mainstreet Index falls for the first time since February of this year.
- Farmland prices decline for seventh straight month, but rate of decline slows.
- Almost half of bankers reported higher beef and pork prices are a big plus.
- The percent of farmland sales for cash declined to 23.7 percent from 28.4 this time last year.
- Over the past year, bankers reported that the percent of farmland purchased by nonfarm investors sank to 14.4 percent from 19.7.

Rural Mainstreet Economy January '11 – June '14



After moving below growth neutral in February, the Rural Mainstreet economy has moved above the 50.0 threshold for four straight months, according to the June survey of bank CEOs in a 10-state area. However, the in-dex was down from May signaling slower growth. **Overall:** The Rural Mainstreet Index (RMI), which ranges be-tween 0 and 100, with 50.0 representing growth neutral, fell to 53.6 from May's 55.6.

The overall index for the Rural Mainstreet Economy indicates that economic conditions of the areas of the na-tion highly dependent on agriculture and energy are positive, but somewhat weaker compared to this time last year.

Almost half, or 47.3 percent, of bankers reported that higher beef and pork prices have increased overall eco-nomic activity in their area. Most of the remaining bankers indicated little livestock production in their area or very low livestock inventories restrained gains.

However, some bankers anticipate a downside to higher livestock prices. According to David Steffensmeier, president of first Community Bank in Beemer, Neb., "High beef and pork prices will cause the same problems that high grain prices did the last few years - unreasonable expectations."

Farming and ranching: The farmland and ranchland-price index for June rose to a weak 49.1 from May's even weaker 46.7. Despite the slight improvement, this is the seventh straight month that this index has moved be-low growth neutral. Stronger farm commodity and grain prices over the last several months appear to have put a floor under farmland prices. I expect the index to move above growth neutral next month.

The June farm-equipment sales index inched forward to 35.0 from 33.6 in May. The index has been below growth neutral for 12 straight months. Despite improving economic activity on the regional farm, agriculture equipment and implement dealers in the region are experiencing very weak sales to farmers in the region. On the other hand, farm equipment manufacturers continue to experience positive growth due to healthy sales abroad.

This month bankers were asked what share of farmland that was sold for cash and what share sold to investors and non-farmers. On average, approximately 23.7 percent, or almost one-fourth, of the farmland sales were cash purchases, which is down from 28.4 percent last year at this time when the survey asked this same question.

Bankers reported that the percent of farmland purchased by nonfarm investors sank to 14.4 percent from 19.7 percent this time last year. Consistent with declines in farmland prices, we are tracking less interest among nonfarm investors in terms of farmland purchases.

Banking: The June loan-volume index slipped to a still robust 74.6 from 75.4 in May. The checking-deposit index declined to 50.9 from May's 54.8, while the index for certificates of deposit and other savings instruments dipped to 39.4 from 40.3 last month.

Hiring: Rural Mainstreet businesses continue to hire at a solid pace, though the June hiring index declined slightly to 63.2 from May's very healthy 64.0. Currently the Rural Mainstreet economy is adding jobs at a pace well above the long-term average and significantly above the rate of growth in urban areas of the region.

Confidence: The confidence index, which reflects expectations for the economy six months out, advanced to 55.5 from last month's 51.6. Despite international tensions and rising oil prices, higher agriculture commodity prices, especially for beef and pork, pushed the outlook higher for the month.

Home and retail sales: The June home-sales index climbed to 66.1 from 63.9 in May. The June retail-sales in-dex increased only slightly to 51.8 from 51.7 in May. Improving weather encouraged an upturn in home purchases. However, retail sales are down from this time last year.

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 eco-nomic 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 Secu-rity 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 approx-imately 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

After moving below growth neutral for February, Colorado's Rural Mainstreet Index (RMI) remained above the 50.0 threshold for the fourth straight month, though it dipped to 54.4 from May's 56.3. The farmland and ranchland-price index declined to 54.8 from 55.4 in May. Colorado's hiring index for June decreased to a healthy 67.3 from 70.1 in May.

ILLINOIS

After increasing for two straight months Illinois' RMI fell, moving to 53.9 from May's 55.8. The Illinois farmland-price index rose to 46.6 from 42.3 in May. The state's new-hiring index improved to 60.8 from May's 59.6.

IOWA

The June RMI for Iowa expanded to 56.8 from May's 55.8. The state's farmland-price index for June advanced to 57.8 from May's 44.1. Iowa's new-hiring index for June soared to 73.9 from May's 61.1.

KANSAS

The Kansas RMI for June slipped to 54.4 from May's 56.3. The farmland-price index for June increased to 54.7 from May's 52.2. The state's new-hiring index fell to a healthy 67.3 from 67.5 in May.

MINNESOTA

The RMI for Minnesota dipped to 54.3 from May's 56.4. Minnesota's farmland-price index for June declined to 53.6 from 55.2 in May. The new-hiring index for the state decreased to 69.1 from May's 69.9.

MISSOURI

The May RMI for Missouri jumped to 57.2 from April's 51.3. The The June RMI for Missouri sank to 55.9 from May's 57.2. The farmland-price index for June fell to 57.8 from May's 68.4. Missouri's new-hiring index declined to a still healthy 62.3 from May's 80.5.

NEBRASKA

The Nebraska RMI for June fell to 53.7 from May's 55.3. The state's farmland-price index for June advanced to a weak 41.3 from 37.1 in May. Nebraska's new-hiring index climbed to a solid 56.5 from May's 55.4. Several bankers reported positive fallout from bad weather. Donald Schmaderer, president of Tri-County Bank in Stuart, said, "There is a significant amount of wind and hail damage across parts of north-central and northeast Nebraska." Larry Rogers, executive vice-president of First Bank of Utica, said, "Severe storms have created employment opportunities for replacing pivots, shingling houses, and construction jobs. Small housing contractors are booked for some time ahead."

NORTH DAKOTA

The North Dakota RMI for June dipped to 56.6 from May's 57.8. The farmland-price index fell to 61.1 from May's 71.8. North Dakota's new-hiring index expanded to 84.4 from May's 83.2.

SOUTH DAKOTA

The June RMI for South Dakota expanded to 56.2 from May's 55.7. The farmland-price index for June increased to 46.4 from last month's 41.9. South Dakota's new-hiring index advanced to 60.6 from 59.3 in May. David Callies, CEO of Miner County Bank in Howard, reported, "Excellent moisture, but big concern for low crop prices."

WYOMING

The June RMI for Wyoming sank to 54.2 from May's 56.0. The June farmland and ranchland-price index declined to 47.0 from May's 47.4. Wyoming's new-hiring index for June fell to 60.8 from May's 63.8.

THE BULLISH NEWS

- Total nonfarm payroll employment increased by 288,000 in June, and the unemployment rate declined to 6.1%. This is much better than expected. Job gains were widespread, led by employment growth in professional and business services, retail trade, food services and drinking places, and health care.

THE MAINSTEET ECONOMY REPORT
"A monthly survey of community bank CEO's"
July 2014

- For May, Creighton University's survey of supply managers and the national survey of supply managers point to improving growth for through the third quarter of 2014.
- The U.S. trade deficit fell in May as exports hit an all-time high and imports dipped slightly

THE BEARISH NEWS

- GDP declined by 2.9% in the first quarter of 2014. This is the worst quarter since Quarter 1, 2009.
- The Consumer Price Index (CPI) increased 0.4% in May after rising 0.3% in April. The index for all items less food and energy rose 0.3% in May after increasing 0.2% in April. Both readings are above the Federal Reserve's target and could push interest rates up before currently anticipated by the Fed.
- Price earnings ratios for U.S. stocks are getting a bit rich, especially if the Fed begins to talk tough on interest rates.

WHAT TO WATCH

- **GDP:** On July 30, the U.S. BEA releases preliminary estimate of Q2 GDP. Annualized growth of less than 2% will be very disappointing and give bond prices a boost and push interest rates lower.
- **Jobs:** On Friday August 1, the U.S. Bureau of Labor Statistics (BLS) will release employment report for June. Another strong report (job additions above 250,000) will result in long term interest rates rising more quickly and a short-term rate increase in the first quarter of 2015.
- **CPI:** On July 22, the Bureau of Labor Statistics releases consumer price indices for June. A monthly increase 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:

- I expect a major retrenchment in the values (stock prices) of some of recent fluffy IPOs (Initial Public Offers). Venture capitalists and others are throwing money at some idiotic ideas from Silicon Valley and beyond. One of the latest nutty ventures DiedInHouse.com was founded in 2013 by a software development company. The Died in House provides users with death records associated with a specific address. Re-examine your portfolio and reduce your risks related to such companies. In the next year, there will be some big losers among those placing these risky bets.

OTHER FORECASTS:

- National Association of Business Economics (NABE) (June 2014): NABE's June 2014 Outlook Survey panelists expect stronger economic growth for the balance of this year than they did three months ago," said NABE President Jack Kleinhenz, chief economist of the National Retail Federation. "The consensus forecast is that real GDP will advance at a strong 3.5% annualized clip in the second quarter of 2014, bolstered by activity that was postponed due to adverse weather conditions earlier in the year. The March survey called for a 2.8% second-quarter gain. Growth expectations for the third and fourth quarters of 2014, at 3.1% and 3.2%, respectively, have also been revised upward. "The latest forecast for annual real GDP growth this year is lower than the previous survey, though, due to a contraction in the first quarter. On an annual average basis, real GDP growth is seen increasing from 1.9% in 2013 to 2.5% in 2014, down from March's expectation of 2.8%. The panel's forecast of a further acceleration to 3.1% real GDP growth in 2015 is unchanged from March. Expectations for business investment, housing construction, exports and government outlays have been tempered. In contrast, consumer spending is projected to increase—and the labor market to improve—both more quickly than previously forecast. Moreover, inflationary expectations remain low."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Private investors and venture capitalists have pumped almost $18 billion into Uber, a startup transportation company with less than $300 million in annual revenues. Thus, investors are valuing Uber at 150% of Hertz Corporation's value despite the fact that Hertz's revenues are 15 times that of Uber and Hertz annual cash flow is $3.4 billion compared to Uber's $150.0 million. Can you say "bubble"?

FOLLOW ERNIE

Follow Ernie Goss on Twitter www.twitter.com/erniegoss

For historical data and forecasts, visit our website at: http://www2.creighton.edu/business/economicoutlook/
For ongoing commentary on recent economic developments, visit our blog at: www.economictrends.blogspot.com