THE MAINSTREET ECONOMY REPORT

March 2019

"A monthly survey of community bank CEO's"

Can the U.S. Afford Medicare for All? Budget Deficit Soared by 77% Over Past Year

Almost all of the major Democrat candidates for the party's presidential nomination support expanding Medicare to cover all U.S. residents. Medicare is already the second largest program in the federal budget. The Congressional Budget Office (CBO) projects that it cost $583 billion in FY 2018, representing 14 percent of total federal spending. The Mercatus Center at George Mason University estimated that this "Medicare for All" would cost taxpayers approximately $3.3 trillion per year, or 75% of total federal spending of $4.4 trillion in 2019.

Even without this program expansion, excessive federal spending has ballooned this year's October to January federal deficit by 77% over the deficit for the same period last year.Central to the soaring deficit problem is the growth in programs such as food stamps (SNAP), Medicare, and Medicaid. The Congressional Budget Office has estimated these three programs will skyrocket by two and one-half times the expansion in the overall U.S. economy to almost $1.4 trillion in 2020. And this is without expanding Medicare coverage to younger Americans. Interest on the accumulated debt for these three programs alone will amount to almost $50 billion in 2020. Interest payment on the U.S. debt was $843 billion in 2018, or approximately $5,600, for each worker in the nation.

As bad the Medicare expansion policy is, the proposed method of paying for it is even worse. New York Congressional Rep (D) Alexandria Ocasio-Cortez has proposed that spending growth on social programs can be paid for by printing more money and/or raising income taxes. Of course, there really are only three ways to reduce the swelling debt: 1) Excessive inflation by paying for it with an expansion in the money supply, 2) Higher interest rates to encourage investors to hold the rising debt, which would reduce private investment, and 3) Higher taxes on taxpayers, which would restrain economic growth.

The oddity of Medicare for All is that the biggest supporters are young citizens, the same individuals that will have to pay for the rocketing debt burden.

MAINSTREET RESULTS

Rural Mainstreet Index Falls for February: Almost Two-Thirds of Banks Raised Farm Loan Collateral Requirements

February Survey Results at a Glance:

- Overall index moves above growth neutral for the 11th time in past 12 months.
- Bank CEOs project a 6.1 percent decline in farm equipment sales over the next year. Last February, bankers expected a 6.9 percent reduction.
- Weak farm income has pushed almost two-thirds of banks have increased collateral requirements on farm loans.
- Almost one-third of banks have increased the farm loan rejection rate due to anemic farm income.

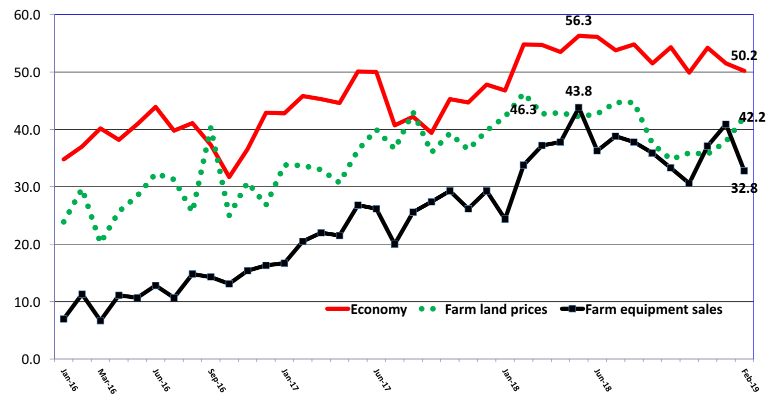
The Creighton University Rural Mainstreet Index climbed above growth neutral in October for a ninth straight month, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The overall index sank to 50.2 from January's 51.5. 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

Table 1: The Mainstreet Economy	Feb 2018	Jan 2019	Feb 2019
Area Economic Index	54.8	51.5	50.2
Loan volume	53.8	55.8	71.3
Checking deposits	48.8	67.6	40.9
Certificate of deposits	45.2	47.1	47.0
Farm land prices	46.3	37.9	42.2
Farm equipment area sales	33.8	40.9	32.8
Home sales	52.4	45.7	50.0
Hiring in the area	58.8	55.7	60.6
Retail Business	47.6	52.9	48.4

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



weaken the farm sector.

Don Reynolds, Chairman of Regional Missouri Bank in Columbia, Missouri reported that, "2018 was not a great year for farmers in our area, but for the most part they have done better than we anticipated. Cash flow projections for 2019 look very tight."

Farming and ranching: TThe farmland and ranchland-price index for January increased to 42.2 from 37.9 in January. This is the 63rd straight month the index has fallen below growth neutral 50.0.

The February farm equipment-sales index slumped to 32.8 from January's 40.9. This marks the 66th consecutive month that the reading has remained below growth neutral 50.0.

Bankers were asked to estimate the change in agriculture equipment sales in their area for the next year. On average, bankers expect another 6.1 percent decline in farm equipment sales over the next year. This is an improvement from last year at this time when a 6.9 percent decline was expected.

Banking: Borrowing by farmers for February was strong as the borrowing index soared to 71.3 from January's 55.8. The checking-deposit index plummeted to 40.9 from January's 67.6, while the index for certificates of deposit and other savings instruments slipped to 47.0 from 47.1 in January.

James Brown, CEO of Hardin County Savings Bank in Eldora, Iowa, reported that, "(Weak farm income has produced) more restructuring with ag loans to shore up working capital and reduce term payments if possible while commodity prices remain low."

This month bankers were asked to identify their bank's response to weak farm income. Almost two-thirds, or 62.6 percent, indicated that collateral requirements have been raised on farm loans. This compares to 45.2 percent for February 2018.

Almost one-third, or 30.3 percent, reported that a higher percentage of farm loan applications had been rejected. This compares to 21.4 percent in February 2018 that reported that their banks had rejected a higher percentage of farm loans.

Hiring: The employment gauge climbed to a healthy; 60.6 from January's 55.7. Despite weak farm commodity prices and farm income, Rural Mainstreet businesses continue to hire at an improved rate. Over the past 12 months, the Rural Mainstreet economy added jobs at a 1.1 percent pace compared to a higher 1.6 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 48.5 from January's 45.7, indicating a pessimistic economic outlook among bankers.

Tariffs, trade tensions, weak agriculture commodity prices and anemic farm income negatively influenced the economic outlook of bank CEOs.

Home and retail sales: The home-sales index increased to 50.0 from 45.7 in January. Retail sales sank to 48.5 from January's 52.9.

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 February climbed to 52.3 from 51.6 in January. The farmland and ranchland-price index rose to 42.7 from January's 38. Colorado's hiring index for February climbed to 63.9 from January's 56.2. Over the past 12 months, Colorado's Rural Mainstreet economy added jobs at a 3.3 percent pace, while urban areas in the state increased jobs by 2.7 percent.

ILLINOIS

The February RMI for Illinois fell to 50.5 from 52.2 in January. The farmland-price index climbed to 42.3 from January's 38.3. The state's new-hiring index increased to 59.1 from last month's 58.5. Over the past 12 months, Illinois' Rural Mainstreet economy added jobs at a 1.3 percent pace, while urban areas in the state increased jobs by 1.2 percent.

IOWA

The February RMI for Iowa sank to 49.3 from January's 54.2. Iowa's farmland-price index increased to 41.9 from January's 37.8. Iowa's new-hiring index for February expanded to 55.9 from 53.4 in January. Over the past 12 months, Iowa's Rural Mainstreet economy added jobs at a 0.0 percent pace, while urban areas in the state increased jobs by 1.8 percent.

KANSAS

The Kansas RMI for February declined to 50.9 from January's 51.9. The state's farmland-price index increased to 42.4 from 38.2 in January. The new-hiring index for Kansas advanced to 60.1 from 57.3 in January. Over the past 12 months, Kansas's Rural Mainstreet economy added jobs at a 1.3 percent pace, while urban areas in the state increased jobs by 1.5 percent.

MINNESOTA

The February RMI for Minnesota dipped to 47.4 from January's 50.1. Minnesota's farmland-price index improved to a still weak 41.4 from 37.5 in January. The new-hiring index for February increased to 50.7 from January's 50.2. Over the past 12 months, Minnesota's Rural Mainstreet economy lost jobs at a pace of minus 0.9 percent, while urban areas in the state increased jobs by 1.5 percent.

MISSOURI

The February RMI for Missouri dipped to 53.4 from 53.5 in January. The farmland-price index for the state increased to 43.0 from January's 38.9. Missouri's new-hiring index for February slipped to 54.7 from January's 55.8. Over the past 12 months, Missouri's Rural Mainstreet economy added jobs at a 1.7 percent pace, while urban areas in the state increased jobs by 1.3 percent.

NEBRASKA

The Nebraska RMI for February sank to 49.4 from January's 50.9. The state's farmland-price index slumped to 42.0 from last month's 47.8. Nebraska's new-hiring index climbed to 56.2 from January's 53.4. Over the past 12 months, Nebraska's Rural Mainstreet economy added jobs at a 0.8 percent pace, while urban areas in the state increased jobs by 1.5 percent.

NORTH DAKOTA

The North Dakota RMI for February rose to 52.7 from January's 51.8. The state's farmland-price index increased to 42.8 from 38.2 in January. The state's new-hiring index expanded to 65.0 from 57.0 in January. Over the past 12 months, North Dakota's Rural Mainstreet economy added jobs at a 2.9 percent pace, while urban areas in the state increased jobs by 1.4 percent.

SOUTH DAKOTA

The February RMI for South Dakota remained above growth neutral and fell to 51.3 from January's 55.0. The state's farmland-price index increased to 42.5 from January's 34.5. South Dakota's new-hiring index expanded to 61.3 from 58.2 in January. Over the past 12 months, South Dakota's Rural Mainstreet economy added jobs at a 1.7 percent pace, while urban areas in the state increased jobs by 2.5 percent.

WYOMING

The February RMI for Wyoming declined to 52.5 from January's 53.4. The February farmland and ranchland-price index increased to 43.3 from 38.8 in January. Wyoming's new-hiring index climbed to 69.2 from 63.5 in January. Over the past 12 months, Wyoming's Rural Mainstreet economy added jobs at a 3.8 percent pace, while urban areas in the state increased jobs by 0.9 percent.

THE BULLISH NEWS

- U.S. 2018 economic growth rose to its highest level since 2005
- U.S. productivity growth rose a solid 1.9% in Q4 of 2018.
- U.S. business investment growth in equipment for 2018 climbed by 6.7% in 2018

THE BEARISH NEWS

- America's trade deficit in goods rose to $891.3 billion, its highest level in history
- U.S. home prices in December rose at the slowest pace since August 2015, or 4.7% year-over-year
- The Q4, 2018 GDP report showed that the Fed's preferred price index rose at 1.5% annualized rate, below the Fed's target and potentially indicating slower growth
- he U.S. added only 20,000 jobs in February, well below the expected 180,000

WHAT TO WATCH

- **Consumer Price Index for February and March:** The U.S. Bureau of Labor Statistics will release the CPI for February and March on March 12 and April 10, respectively. 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 (March 7) 17 basis points (0.17%), and too low for comfort.
- **New residential home sales:** On March 28, the U.S. Census Bureau new residential home sales for January. Another decline greater than 2.5% should raise red flags.

STATISTIC OF THE MONTH

- 30%. Goss estimated that the likelihood of a recession beginning in Q1, 2020 is approximately 30%. This is more than double the probability of a recession measured just two years ago.

THE OUTLOOK

FROM GOSS:

- I expect **the Federal Reserve to forego interest rate increases until the third quarter of 2019. **GDP annualized growth to slow in the first half of 2019 to 2.6%. ***annualized growth in the consumer price index (CPI) to exceed 2.0% in Q1, 2019.

OTHER FORECASTS:

- **National Association of Business Economics (NABE). FEBRUARY SUMMARY:** "Three-fourths of the NABE Policy Survey panelists expect an economic recession by the end of 2021," said NABE President Kevin Swift, CBE, chief economist at the American Chemistry Council. "While only 10% of panelists expect a recession in 2019, 42% say a recession will happen in 2020, and 25% expect one in 2021. A majority of panelists also indicates they would be worried about a budget deficit in the U.S. that equaled up to 4% of gross domestic product. This is an outcome which will likely occur in 2019 given the deficit for fiscal year 2018 was 3.85%, and respondents expect spending policies to increase the deficit compared with the Congressional Budget Office's current 10-year baseline estimate. "Business economists continue to approve of current monetary policy," continued Swift. "Nearly three-quarters of panelists believe that the Federal Reserve's policy is 'about right,' roughly the same percentage as in the August survey. A majority of panelists continues to believe the Fed should maintain its current inflation target of 2%."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- China is building a wall—a wall of debt that is. Local governments across the nation have run up trillions of dollars of debt as they borrow and build which in the end, ineffectively fight the economic slowdown. China's debt to GDP has risen by more than 100% over the past decade.

BANKER READING ROOM

"Community Focus 2020: The Community Bank Agenda for Expanding Economic Opportunity." "Community banks are well-positioned to support greater economic opportunity for all Americans. Serving the nation's rural, suburban and urban communities with more than 52,000 locations, community banks are critical to ensuring that every local community can join in the nation's broad economic prosperity. ICBA and community bankers developed Community Focus 2020 to advance a more efficient system of regulation, unbiased laws governing the financial sector, a safer and more secure business environment, and more effective agriculture policies to extend the nation's economic growth to every corner of the country."

Read More at: https://www.icba.org/advocacy/community-focus-2020

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