THE MAINSTREET ECONOMY REPORT

"A monthly survey of community bank CEO's"

May 2018

Federal Government Has a Spending Problem: Taxes Expand, but Spending Soars

Since 1930, the federal government has spent approximately $90.2 trillion and collected $69.7 trillion in taxes, thus adding $20.5 trillion to the national debt, or approximately 104% of total 2017 U.S. output. Adding to the debt problem, the Congressional Budget Office (CBO) recently estimated that the federal deficit will rise by more than $1 trillion yearly by 2020. Big Congressional spenders blame the shortfall on the 2017 tax reform package. But the CBO estimates that tax collections will grow by 10.2% over the next two years, while spending will soar by 13.1%. Thus, the true fiscal culprit is a spending explosion, not a lack of tax collections?

Central to the rising spending problem is the growth in programs such as food stamps (SNAP), Medicare, and Medicaid. These three programs will skyrocket by 16.4% by 2020, or two and one-half times the expansion in the overall U.S. economy, to almost $1.4 trillion in 2020. Interest on the accumulated debt for these three programs will amount to almost $50 billion in 2020 alone

Despite a robust and rapidly growing U.S. economy beginning in 2009 with unemployment rates dropping from 9.3% to 4.1%, the nation's food stamp program has expanded from 33,000,000 recipients in 2009 to 42,600,000 in 2017. This means that approximately one of seven Americans received food stamps in 2017 at a cost of $1,663 per recipient, or $70.9 billion.

In an effort to slow the expansion in these three programs, President Trump last week issued an executive order calling for enforcement of existing work requirements and also reviewing current waivers and exemptions to working. However, since most households receiving food stamps contain a working adult, a work requirement will do little to reduce SNAP, or food stamp, expenditures. A better approach is to lower the income threshold beyond which households lose all, or portion of food stamps. Policymakers that advocate raising taxes to solve the debt problem are shooting at the wrong target.

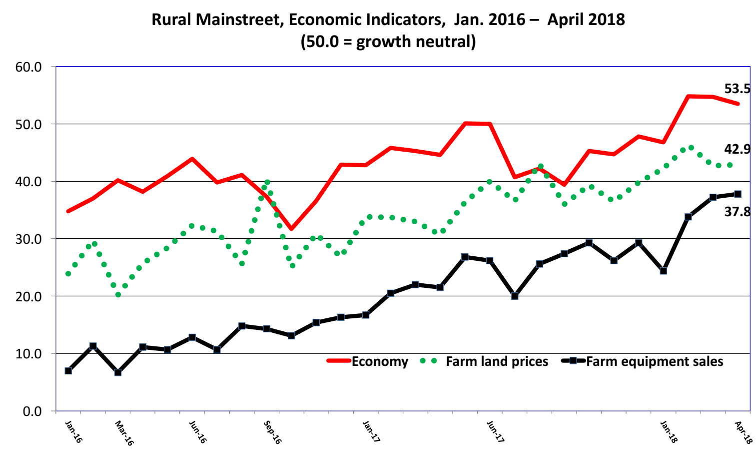
MAINSTREET RESULTS

April Rural Mainstreet Index Positive: Trade Concerns Batters Business Confidence

Survey Results at a Glance:

- For a second straight month the overall index rose • For a third straight month the overall index rose above growth neutral.
- Farmland price growth and agriculture equipment sales continue to decline.
- Trade concerns slam the business confidence index
- More than three-fourths of bank CEOs reported that export markets were very important to their local economy.
- Almost one-third of bankers support the abolition of NAFTA undertaking a new agreement.
- More than one-fifth of bankers support the elimination of oil refinery waivers to RFS obligations.

Table 1: The Mainstreet Economy	Apr 2017	Mar 2018	Apr 2018
Area Economic Index	44.6	54.7	53.5
Loan volume	81.6	56.9	68.7
Checking deposits	52.2	58.0	56.0
Certificate of deposits	44.6	50.0	45.3
Farm land prices	30.7	42.7	42.9
Farm equipment area sales	21.5	37.2	37.8
Home sales	56.8	52.3	57.1
Hiring in the area	57.8	58.1	64.0
Retail Business	40.2	48.9	53.6



The Creighton University Rural Mainstreet Index slipped in April, but remained above growth neutral for a third 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 the middle of 2015 that we have recorded three straight months of overall indices above growth neutral.

Overall: The overall index dipped slightly to 53.5 from 54.7 in March. The index ranges between 0 and 100 with 50.0 representing growth neutral.

Surveys over the past several months indicate that the Rural Mainstreet economy is trending upward with improving, and positive economic growth. However, weak agriculture commodity prices continue to weigh on the rural economy.

Recent trade tariffs, both implemented and proposed, have echoed throughout agriculture areas of the region. Some have advanced various federal measures to assist agriculture. One of those measures is eliminating oil refinery wavers to renewable fuels standard (RFS). Approximately 21.1 percent of bankers support the elimination of oil refinery waivers, 47.3 percent back granting no more waivers, while 31.6 percent, on the other hand, support increasing oil refinery waivers.

According to Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa, who recently met with DC legislators said, the meeting was for "…regulatory relief (s.2155) that will benefit both the consumer and community banks, and passing a new farm bill that will allow farmers to continue to feed the world. We came away optimistic that Congress will pass legislation on both issues. The growth of our economy depends on it."

Farming and ranching: The farmland and ranchland-price index for April increased to 42.9 from March's 42.7. This is the 53rd straight month the index has fallen below growth neutral 50.0.

The April farm equipment-sales index climbed to a weak 37.8 from March's 37.2. This marks the 56th consecutive month the reading has moved below growth neutral, 50.0.

Banking: Borrowing by farmers expanded for April as the loan-volume index rose to 68.7 from 56.8 in March. The checking-deposit index fell to 56.0 from March's 58.0, while the index for certificates of deposit and other savings instruments sank to 45.3 from 50.0 in March.

Hiring: The employment gauge soared to 64.0 from March's healthy 58.1. The Rural Mainstreet economy is now experiencing positive year-over-year job growth. The Rural Mainstreet economy has added jobs at a 0.4 percent pace over the past 12 months. Job growth in rural areas is now exceeding that of the urban areas of the 10-state region.

Confidence: The confidence index, which reflects expectations for the economy six months out, sank to 50.0 from March's 58.0 indicating rising economic optimism among bankers. "However, an unresolved North America Free Trade Agreement (NAFTA) and rising trade tensions with China continue to be a concern," said Goss.

Bankers when asked this month expressed great support for export markets. More than three-fourths, or 76.2 percent, of bank CEOs reported that export markets were very important to their local economies.

In terms of NAFTA, almost one-third, or 31.0 percent, backed abolishing NAFA and starting negotiations on a fresh agreement. Approximately, 40.5 percent supported continuing with the current NAFTA.

Home and retail sales: The home-sales index moved higher for the Rural Mainstreet economy in April advancing to 57.1 from March's 52.3. The April retail-sales index improved to 53.6 from March's weak 48.9.

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 (RMI) fell to 54.8 from 62.0 in March. The farmland and ranchland-price index dipped to 43.4 from March's 44.9. Colorado's hiring index for April declined to 68.9 from March's 73.0. Colorado's Rural Mainstreet job growth over last 12 months, 2.4 percent.

ILLINOIS
The April RMI for Illinois sank to 52.2 from 58.4 in March. The farmland-price index sank to 43.5 from 47.3 in March. The state's new-hiring index advanced to 70.5 from last month's 65.8. Illinois' Rural Mainstreet job growth over last 12 months, 1.7 percent.

IOWA
The April RMI for Iowa advanced to 54.5 from 52.8 in March. Iowa's farmland-price index for April rose to 43.3 from March's 42.7. Iowa's new-hiring index for April expanded to 67.5 from March's 58.5. Iowa's Rural Mainstreet job growth over last 12 months, 0.1 percent.

KANSAS
The Kansas RMI for April slipped to 53.9 from March's 55.7. The state's farmland-price index decreased to 43.0 from 45.8 in March. The new-hiring index for Kansas climbed to 65.3 from March's 60.5. Kansas's Rural Mainstreet job growth over last 12 months, 0.1 percent.

MINNESOTA
The April RMI for Minnesota slipped to 54.7 from March's 54.9. Minnesota's farmland-price index increased to 43.4 from 42.7 in March. The new-hiring index for the state climbed to 68.6 from March's 58.8. Pete Haddeland, CEO of the First National Bank in Mahnomen reported that, "We are several weeks out for Field work." Minnesota's Rural Mainstreet job growth over last 12 months, 0.5 percent.

MISSOURI
The April RMI for Missouri declined to 57.0 from 59.0 in March. The farmland-price index expanded to 44.3 from 44.0 in March. Missouri's new-hiring index for April was unchanged from March's 54.1. Missouri's Rural Mainstreet job growth over last 12 months, 4.0 percent.

NEBRASKA
The Nebraska RMI for April expanded to 54.0 from March's 52.3. The state's farmland-price index sank to 39.9 from last month's 42.6. Nebraska's new-hiring index climbed to 65.4 from 57.8 in March. Nebraska's Rural Mainstreet job growth over last 12 months, 2.4 percent.

NORTH DAKOTA
The North Dakota RMI for April grew to 52.7 from March's 51.4. The state's farmland-price index moved lower to 42.5 from 41.7 in March. North Dakota's new-hiring index jumped to 60.4 from 51.8 in March. North Dakota's Rural Mainstreet job growth over last 12 months, minus 3.1 percent.

SOUTH DAKOTA
The April RMI for South Dakota moved above growth neutral for the month. However, the April index declined to 52.8 from March's 54.4. The state's farmland-price index climbed to 43.4 from March's 42.6. South Dakota's new-hiring index expanded to 68.9 from 55.1 in March. South Dakota's Rural Mainstreet job growth over last 12 months, 0.9 percent.

WYOMING
The April RMI for Wyoming sank to 52.9 from March's 55.5. The April farmland and ranchland-price index slumped to 38.9 from 42.9 in March. Wyoming's new-hiring index soared to 74.1 from March's 53.8. Wyoming's Rural Mainstreet job growth over last

12 months, 1.7 percent.

THE BULLISH NEWS

- The jobs report for April was semi-great. The unemployment rate declined to 3.9%, the lowest since 2000, and employers added 164,000 jobs. But most importantly, wages increased by only 2.6% (year over year) indicating little inflationary pressures.

- Home values nationally jumped 6.3% in February compared with a year ago, according the S&P CoreLogic Case-Shiller Home Price Index.

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- Consumer prices, excluding food and energy (the core CPI) rose by 1.9% for the 12 months ending in March.

THE BEARISH NEWS

- The Saudis are attempting to raise the price of a barrel of oil to $80. If successful, this will put the Federal Reserve in a bind: higher prices, but slowing growth.

- According to the USDA, Chinese importers have canceled purchases of U.S. corn and pork and dramatically cut imports of U.S. soybean .

WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for April on May 10. An annualized increase above 2.5% will be bullish for stock prices and bearish for bond prices (rising yields, falling prices).

- **Wage Data for May**: On June 1, the U.S. Bureau of Labor Statistics will release wage data for May. Year over year growth approaching 3.0% will be a strong inflation signal (more interest rate increases from the Fed).

- **Federal Open Market Committee (FOMC):** On June 12-13, the interest rate setting committee of the Federal Reserve (FOMC) will announce its current stance on interest rates and will raise short term interest rates by ¼% (25 basis points). Bullish statements (e.g. three more 2018 rate hikes) by the committee would take some air out of U.S. equity markets.

THE OUTLOOK

FROM GOSS:

- I expect **three more Federal Reserve rate hikes by the end of 2018 (0.75% or 75 basis points); **mortgage rates to climb by another ¾% by the end of 2018.

OTHER FORECASTS:

- **NABE Business Conditions Survey (April 2018):** "The results of the April 2018 NABE Business Conditions Survey show continued increases in sales and healthy profit margins, but also suggest that gains in profit margins slowed during the first quarter of 2018 as material costs and wages increased," said NABE Business Conditions Survey Chair Sara Rutledge, independent real estate economist. "The panel's outlook for growth in the overall economy remains overwhelmingly positive, and more upbeat than a year ago, while labor market conditions are increasingly tight. When questioned about the impact of recent policy changes, about two-thirds of panelists indicate their firms are not adjusting hiring and investment plans after the passage of the 2017 Tax Cuts and Jobs Act and the introduction of steel and aluminum tariffs. April survey results suggest widespread wage growth and increasing shortages of skilled labor. "The first quarter of 2018 registered the highest Net Rising Index for wages and salaries since NABE began tracking the data in April 1982, and the largest share of respondents reporting shortages of skilled labor in nearly ten years."

BANKER READING ROOM

ICBA Relief from Crushing Regulatory Burden:

- Community banks need regulatory relief to support the financial needs of their customers, serve their communities, and contribute to their local economies. *ICBA's "Plan for Prosperity" contains targeted measures that would roll back Dodd-Frank Act provisions among other onerous rules, providing regulatory relief for community banks. *ICBA urges Congress and the regulatory agencies to continue to expand and refine a tiered regulatory and supervisory system that recognizes the significant differences between community banks and large, complex institutions in terms of the risks they pose to consumers and to the financial system. *To preserve their original purpose, thresholds for regulatory accommodations and exemptions based on asset size and transaction volume should be continually reviewed and adjusted upward as community banks consolidate and the average asset size of banks increases.

http://www.icba.org/advocacy/policy-resolutions/relief-from-crushing-regulatory-burden

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- California voters will soon vote to repeal the Costa Hawkins Rental Housing Act which restricts communities from enacting rent controls. In the short-run, rent controls are just welfare funded by landlords. In the the long-run, rent controls result in the deterioration of rental property.

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This month's survey results will be released on the third Thursday of the month, February 15th.