THE MAINSTREET ECONOMY REPORT

September 2018

"A monthly survey of community bank CEO's"

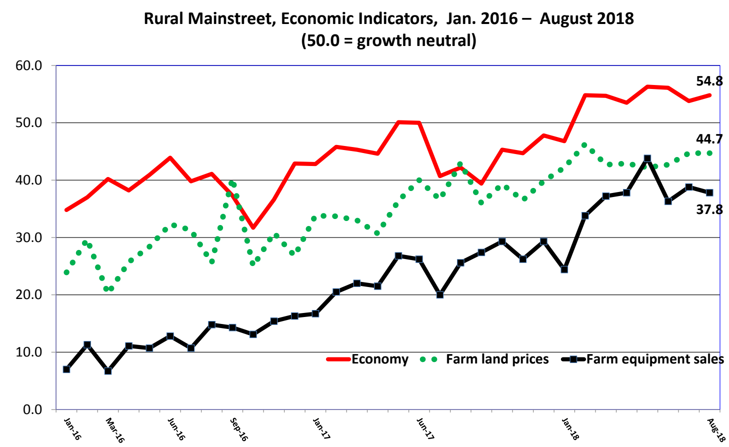
ObamaCare's Medicaid Expansion Sends States Fishing for Fed Dollars: On Average, $375 Billion Annually Goes to Participating States

As a part of President Obama's Affordable Care Act of 2010, states were required to "Expand Medicaid to all non-Medicare eligible individuals under age 65 (children, pregnant women, parents, and adults without dependent children) with incomes up to 133% FPL based on modified adjusted gross income." In 2012 the U.S. Supreme Court ruled that the mandatory Medicaid pension was unconstitutional, thus making it optional for the states.

By 2014, 33 states and D.C had expanded Medicaid while 18 states chose not to broaden Medicaid. Not including state outlays, federal spending on Medicaid soared from $440 billion in 2013 to $577 billion in 2017, or 31.2%. States that expanded Medicaid according to Federal guidelines grew their federal injections into the economy from $1,597 per capita in 2013 to $2,101 per capita in 2016. States that rejected the expansion netted $1,133 per capita in 2013 growing to $1,299 per capita in 2016. In 2016, the median U.S. state to expand Medicaid received a federal subsidy of $375 billion while the median non-expanding state netted a much smaller $189 billion from the federal government.

Not surprisingly, numerous studies have measured positive economic impacts from this "spend today, pay back later strategy." However, there are no "free lunches." Specifically, while the Federal government pays 100 percent of the cost of Medicaid expansion for 2014 through 2016, that share falls to 95 percent in 2017, 94 percent in 2018, 93 percent in 2019, and levels off at 90 percent for 2020 and beyond. Beyond 2020, Americans in all states will pay for this overspending via either higher taxes, soaring interest rates, spiraling inflation, or a combination of these three "bads." Ernie Goss.

Table 1: The Mainstreet Economy	Aug 2017	July 2018	Aug 2018
Area Economic Index	42.2	53.8	54.8
Loan volume	77.8	76.9	72.2
Checking deposits	46.7	37.8	36.0
Certificate of deposits	46.7	43.9	48.8
Farm land prices	43.0	44.7	44.7
Farm equipment area sales	25.6	38.8	37.8
Home sales	62.5	65.9	63.1
Hiring in the area	51.1	65.6	68.7
Retail Business	41.1	51.2	53.5



MAINSTREET RESULTS

Rural Mainstreet Index Rises for August: Bankers Expect 7.8 Percent Decline in Farm Equipment Sales over Next 12 Months

Survey Results at a Glance:

- For a seventh straight month the overall index rose above growth neutral.
- Bankers reported a decline in the sale of agriculture equipment and expect sales to decline by another 7.8 percent over the next 12 months.
- More than one-half of bankers supported cutting recently enacted tariffs.
- In reaction to weak farm commodity prices and income, almost one-third of bank CEOs reported rejecting a higher percentage of farm loans.

The Creighton University Rural Mainstreet Index climbed above growth neutral in August for a seventh 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 climbed to 54.8 from 53.8 in July. The index ranges between 0 and 100 with 50.0 representing growth neutral.

Surveys over the past several months indicate the Rural Mainstreet economy is expanding outside of agriculture. However, the negative impacts of recent trade skirmishes have begun to surface with weakening already anemic grain prices.

Farming and ranching: The farmland and ranchland-price index for August was unchanged from July's 44.7. This is the 57th straight month the index has fallen below growth neutral 50.0.

In reaction to weak farm commodity prices and income, almost one-third, or 31.0 percent, of bank CEOs reported rejecting a higher percentage of farm loans. More than half, or 54.8 percent, indicated raising collateral requirements, while 4.8 percent reported reducing the size of farm loans.

The August farm equipment-sales index fell to 37.8 from July's 38.8. This marks the 60th consecutive month the reading has moved below growth neutral 50.0.

In terms of the sale of farm equipment over the next 12 months, bankers expect sales to decline by 7.8 percent.

Banking: Borrowing by farmers expanded for August but at a slower pace than in July as the loan-volume index declined to 72.2 from 76.9 in July. The checking-deposit index slumped to 36.0 from July's 37.8, while the index for certificates of deposit and other savings instruments increased to 48.8 from 43.9 in July.

Hiring: The employment gauge improved to a very strong 68.7 from July's 65.6. The Rural Mainstreet economy is now experiencing positive job growth. Over the past 12 months, the Rural Mainstreet economy added jobs at a 1.1 percent pace.

Confidence: The confidence index, which reflects expectations for the economy six months out, rose to a weak 46.5 from

July's 42.7, indicating a pessimistic economic optimism among bankers. Just as last month, an unresolved North America Free Trade Agreement (NAFTA) and rising trade tensions/tariffs with China and Turkey continue to be a concern.

Bankers were asked their position on recently implemented and proposed tariffs on imported goods. More than half, or 51.1 percent, support cutting or eliminating those tariffs. Approximately 41.9 percent support continuing current tariffs and trade policy while 7.0 percent endorse pursuing a more hawkish approach by raising tariffs.

Home and retail sales: The home-sales index decreased to a still healthy 63.1 from 65.9 in July. Retail sales improved for the month to 53.5 from July's 51.2.

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) for August fell to 55.8 from 57.3 in July. The farmland and ranchland-price index expanded to 45.1 from July's 43.2. Colorado's hiring index for August soared to 69.5 from July's 60.8. Colorado's 2017 export of agriculture commodities was $109.4 million.

ILLINOIS

The August RMI for Illinois declined to 54.1 from 57.9 in July. The farmland-price index rose to 45.0 from July's 43.0. The state's new-hiring index rose to 68.4 from last month's 61.2. Illinois's 2017 export of agriculture commodities was $2.9 billion.

IOWA

The August RMI for Iowa climbed to 56.8 form 56.0 in July. Iowa's farmland-price index for August climbed to 44.1 from July's 42.1. Iowa's new-hiring index for August jumped to 59.1 from July's 50.1. Iowa's 2017 export of agriculture commodities was $1.5 billion.

KANSAS

The Kansas RMI for August slipped to 56.3 from July's 56.9. The state's farmland-price index increased to 45.3 from 43.0 in July. The new-hiring index for Kansas rocketed to 71.7 from 58.8 in July. Kansas's 2017 export of agriculture commodities was $1.6 billion.

MINNESOTA

The August RMI for Minnesota dipped to 53.1 from July's 54.8. Minnesota's farmland-price index rose to 44.0 from 42,1 in July. The new-hiring index jumped to 59.0 from July's 50.4. Minnesota's 2017 export of agriculture commodities was $621.4 million.

MISSOURI

The August RMI for Missouri fell to 56.4 from 58.7 in July. The farmland-price index for the state increased to 45.3 from July's 43.7. Missouri's new-hiring index for August climbed to 72.0 from July's 66.1. Missouri's 2017 export of agriculture commodities was $498.7 million.

NEBRASKA

The Nebraska RMI for August sank to 55.2 from 56.3 in July. The state's farmland-price index increased to 44.9 from last month's 43.7. Nebraska's new-hiring index rose to 67.4 from 56.5 in July. Nebraska's 2017 export of agriculture commodities was $918.6 million.

NORTH DAKOTA

The North Dakota RMI for August advanced to 52.4 from July's 51.2. The state's farmland-price index moved higher to 43.8 from 40.7 in July. The state's new-hiring index increased to 56.1 from 36.3 in July. North Dakota's 2017 export of agriculture commodities was $462.7 million.

SOUTH DAKOTA

The August RMI for South Dakota remained above growth neutral but fell to 55.4 from July's 56.3. The state's farmland-price index increased to 44.9 from July's 42.7. South Dakota's new-hiring index climbed to 67.8 from 56.5 in July. South Dakota's 2017 export of agriculture commodities was $40.4 million.

WYOMING

The August RMI for Wyoming fell to 56.4 from July's 57.1. The August farmland and ranchland-price index advanced to 45.4 from July's 43.1. Wyoming's new-hiring index soared to 72.1 from 59.9 in July. Wyoming's 2017 export of agriculture commodities was $4.9 million.

THE BULLISH NEWS

- The nation added 201,000 jobs in August as the unemployment rate was unchanged at 3.9%.
- Housing prices were up 6.2% in June from 12 months earlier. Supply constraints continue to push price growth at a pace that is diverging from much slower income growth.

THE BEARISH NEWS

- The U.S. trade deficit expanded in July to a 5-month high. The trade deficit in goods with China surged 10% to a record high $36.8 billion.
- For the first ten months of fiscal 2018, the nation's budget deficit widened by 21% compared to the same period in fiscal 2017.
- In a signal of rising inflationary pressures, the consumer price index expanded by 2.9% in the 12 months ending in July 2018.

WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for September on October 11. Year over year growth above 3.0% will be bearish for bond prices (rising yields, falling prices).

- **Inverted yield:** Marketwatch.com provides contemporaneous yields on the 2-year and 10-year U.S. Treasury bonds. Every recession since 1980 has been preceded by 2-year rates exceeding 10-year rates (termed an inverted yield). Currently 24 basis points (0.24%).

- **Wage Data for July**: On October 5, the U.S. Bureau of Labor Statistics will release wage data for September. Year-over-year growth above 3.0% will be a strong inflation signal and push the Fed to raise short-term interest rates at their September and December meetings.

STATISTIC OF THE MONTH

- More than 1,000,000 student loan borrowers each year go into default and nearly 40% of borrowers are expected to default on their student loans by 2023. Outstanding US education debt poses a greater burden to Americans than auto or credit card debt.

THE OUTLOOK

FROM GOSS:

- I expect **the Federal Reserve to raise rates on September 26 (0.25% or 25 basis points); **the Fed to raise rates again December 19 by another ¼% (80% likely). ***GDP growth to slow in the second half of 2018, but remain above 3.0% annualized. ***annualized growth in the consumer price index (CPI) to exceed 3% in Q4, 2018.

OTHER FORECASTS:

- **NABE Business Conditions Survey (August 2018):** "Over 90 percent of the NABE Policy Survey panel considers current tariffs and threats of tariffs as having unfavorable consequential impacts on the U.S. economy," said NABE Vice President Kevin Swift, CBE, chief economist, American Chemistry Council. "Panelists also expect unfavorable consequential impacts should the United States withdraw from NAFTA. "Current monetary policy continues to be supported by business economists, with nearly eight in 10 reporting that the Federal Reserve Board's policy is 'about right,'' according to Swift. "Indeed, the percentage holding this view is the highest in more than 11 years. Most panelists believe the Federal Reserve's current inflation target of 2% should be maintained. Of the remaining panelists, more favor raising the target than lowering it.""Seven out of 10 panelists maintain that fiscal policy is 'too stimulative,'' added Survey Chair Jim Diffley, CBE, executive director, IHS Markit. "In general, the panel expects the federal deficit, as a percentage of the economy, to grow in the longer term, with eight out of 10 panelists indicating that fiscal policy should help shrink the deficit as a share of the economy.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Last month in a show of bi-partisan nonsense, Republican Senator Rubio, introduced a bill to provide a public (government) option for paid parental leave. The bill would allow any American to take paid time off to be with a new child. It pays for the program by allowing a parent to draw from future Social Security benefits to take at least two months of paid time off at around 40 to 70 percent of current pay. Nothing more in line with Congressional thinking than taking funds from one underfunded, potentially bankrupt program, to support another government spending program.

BANKER READING ROOM

Community Bank Income Rises 21 Percent. Aug 24, 2018. "Community banks reported $6.5 billion in net income during the second quarter, a 21.1 percent gain from the previous year, according to the FDIC's Quarterly Banking Profile. Net income rose on an 8 percent gain in net operating revenue and a lower effective tax rate. Loan-loss provisions declined 22.5 percent. Overall, FDIC-insured institutions reported a 25.1 percent annual gain. The FDIC's Problem Bank List declined from 92 to 82 banks, the lowest number since the fourth quarter of 2007. Merger transactions absorbed 64 institutions, two new charters were opened, and there were no failures. The Deposit Insurance Fund balance rose by $2.5 billion to $97.6 billion, and its reserve ratio rose from 1.30 percent to 1.33 percent.

https://www.icba.org/advocacy/industry-issues/agencies-regulators/fdic/2018/08/24/community-bank-income-rises-21-percent

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