Kansas City, a Laboratory for Kansas Tax Cuts: Data Suggest That Tax Reductions Stimulated Growth

The Kansas City Metropolitan area is divided into two portions, Kansas and Missouri. This min-gling of fiscal perspectives makes the area a good laboratory to gauge the effectiveness of economic pol-icy changes made on one side, but not the other. For example, what do metro growth numbers have to say about the wisdom of the 2012 and 2013 Kansas tax reductions? Post Tax-Cut Earnings: From March 2012 to March 2015, the Kansas fraction of the metro grew its average weekly wages for private workers by 6.7% which was higher than the Missouri side’s growth of 5.6%. Post Tax-Cut Job Performance: During this same time period, the Kansas side of the met-ro experienced private job growth of 7.5% compared to a much lower 4.4% for the Missouri segment of the metropolitan area. Both sides of the metro area reduced the number of government workers, but the Kansas side lost 4.8% of its government jobs, while the Missouri portion lost 1.0% of its public jobs. Not surprisingly, Kansas public workers are raising a ruckus, claiming an economic calamity. But even after the tax cut, 2014 state taxes as a percent of personal income for the Sunflower state, when compared to its neighbors, were more than one percentage point higher than Colorado and Missouri, and slightly above Nebraska and Oklahoma. Furthermore, 2012 to 2014 personal income growth for Kansas surpassed that of Missouri and Nebraska, but trailed Colorado and Oklahoma. Post tax cut data from Kansas City, the state of Kansas, and its neighbors support the hypothesis that the tax cuts improved the state’s economic growth. However critics of the reduction correctly argue that this da-ta, as presented here, shows correlation, but does not prove causation. Ernie Goss.

MAINSTREAM RESULTS

Almost One in Five Bankers Reported Negative Impacts from Bird Flu

Survey Results at a Glance:

- The Rural Mainstreet Index improved, but remained below growth neutral for May signaling slight pullbacks in economic activity
- Farmland prices declined for the 18th straight month, but with wide variations across the region.
- Almost one in five bankers reported negative fallout from the avian flu outbreak.
- Agriculture equipment-sales index dropped to a record low level.
- Bankers identified rising regulatory costs as the top economic challenge to bank profitability for the next five years.

Rural Mainstreet Economy January ’13 – May ’15

Creighton University

The Creighton University Rural Mainstreet Index for May rose slightly from April’s weak reading, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, climbed to 49.0 from 46.0 in April.

The stronger U.S. dollar continues to be a drag on the Rural Mainstreet economy. The strong U.S. dollar has made U.S. goods, especially agriculture and energy products, less competitively priced abroad. This has dampened farm income and the Rural Mainstreet economy.

Farming and ranching: The farmland and ranchland-price index for May climbed to 39.7 from April’s 33.4. However, this is the 18th straight month the index has moved below growth neutral. But according to banker com-ments, there is great deal of variation across the region with many areas continuing to experience strong demand for farmland with little deterioration in farmland prices.

Jeff Bonnett, president of Havana National Bank in Havana, Ill., said, “Although it is very true that commodity prices are too low to support current year farm operations, the idea of plummeting farmland values has no merit in our area. We have a recent example of a 240 acre irrigated piece in the southern part of our county that sold for $9,450 an acre.”

The May farm equipment-sales index fell to a record low of 12.5 from 15.6 in April. The index has been below growth neutral for 22 straight months. With farm income expected to decline for a second straight year, farmers remain very cautious regarding the purchase of agricultural equipment.

Banking: The May loan-volume index soared to 79.6 from 69.0 in April. The checking-deposit index sank to 43.8 from April’s 50.1, while the index for certificates of deposit and other savings instruments increased to 39.7 from April’s 38.0.

Table 1: The Mainstreet Economy

<table>
<thead>
<tr>
<th>Area Economic Index</th>
<th>May 2014</th>
<th>Apr 2015</th>
<th>May 2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan volume</td>
<td>75.4</td>
<td>69.0</td>
<td>79.6</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>54.8</td>
<td>50.1</td>
<td>43.8</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>40.3</td>
<td>38.0</td>
<td>39.7</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>46.7</td>
<td>39.4</td>
<td>39.4</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>33.6</td>
<td>15.6</td>
<td>12.5</td>
</tr>
<tr>
<td>Home sales</td>
<td>63.9</td>
<td>58.2</td>
<td>66.0</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>64.0</td>
<td>54.2</td>
<td>61.5</td>
</tr>
<tr>
<td>Retail Business</td>
<td>51.7</td>
<td>44.0</td>
<td>49.0</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>51.6</td>
<td>47.0</td>
<td>41.5</td>
</tr>
</tbody>
</table>

Write to us at ernieg@creighton.edu
This month, bank CEOs were asked to identify the greatest economic challenge to banking operations over the next five years. Approximately, 45.8 percent of the bank CEOs named rising regulatory costs as the top threat to their bank’s profitability. More than one in five, or 20.8 percent, indicated growing competition from non-bank sources of credit and credit unions represented the greatest threat over the next five years.

Approximately 10.4 percent and 8.3 percent identified slow growth and farm foreclosures, respectively, as the number one challenge to their bank’s profitability over the next five years. The remaining 14.9 percent named other factors challenging their operating income over the next five years.

Hiring: Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and rural, Regional Mainstreet businesses continue to add workers to their payrolls. The May hiring index rocketed to 61.5 from April’s much lower, but solid 54.2. Rural Mainstreet businesses continue to hire additional workers. While the rate of new hiring is healthier in urban areas of each state, Rural Mainstreet communities are growing jobs at a solid, but slower pace.

Confidence: The confidence index, which reflects expectations for the economy six months out, sank to 41.5 from 47.0 in April. The impact of the avian flu had a clear and negative impact on the outlook of bankers in the region.

We asked bankers about the fallout from the avian flu outbreak. Almost one in five of the bankers, or 18.7 percent, reported negative impacts from the outbreak. However, almost one-half, or 48.9, expect negative impacts from the bird flu if it should spread to their area.

Home and retail sales: The May home-sales index jumped to 66.0 from April’s 58.2. The May retail-sales index increased to a weak 49.2 from 44.0 in April. We have yet to measure any upturn in retail sales stemming from the downturn in fuel prices.

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. The survey is supported by a grant from Security State Bank in Anley, 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 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 Quillian, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

COLORADO After rising above growth neutral for 11 straight months, Colorado’s Rural Mainstreet Index (RMI) has declined below the 50.0 threshold for the last four months. The RMI improved to 47.7 from April’s 43.0. The May farmland and ranch-price index advanced to 50.9 from April’s 35.6. Colorado’s hiring index for May advanced to 62.4, from 50.5 in April. Dale Leighty, CEO of First National Bank of Las Animas reported, “Recent rains have changed our outlook for the better.”

ILLINOIS The RMI for Illinois rose to 49.2 from 45.6 in April. The Illinois farmland-price index increased to 42.9 from April’s 39.2. The state’s new-hiring index expanded to 59.2 from 53.3 in April.

IOWA The May RMI for Iowa advanced to 52.1 from April’s 45.4. Iowa’s farmland-price index for May climbed to 52.3 from April’s 42.1. Iowa’s new-hiring index for May jumped to 62.9 from April’s 55.7.

KANSAS The Kansas RMI for May dipped to 47.5 from April’s 49.2. The state’s farmland-price index for May fell to 33.9 from April’s 57.1. The new-hiring index for Kansas declined to 55.6 from 67.7 in April. According to Michael Johnson, CEO of the Swedish American Bank in Courtland, “20 tornadoes in one night. Devastating but no lives lost. (It is) amazing to see how our communities pull together to help their neighbors when all is lost.”

MINNESOTA The May RMI for Minnesota rose to 50.1 from April’s 45.2. Minnesota’s farmland-price index increased to 42.0 from 32.4 in April. The new-hiring index for the state climbed to 58.8 from April’s 47.9.

MISSOURI The May RMI for Missouri grew to 48.0 from 41.8 in April. The farmland-price index for May rose to 36.2 from April’s 16.3. Missouri’s new-hiring index soared to 56.5 from April’s 35.1.

NEBRASKA The Nebraska RMI for May increased to 47.8 from 45.7 in April. The state’s farmland-price index slipped to 39.0 from 39.4 in April. Nebraska’s new-hiring index grew to 57.6 from April’s 53.1. Larry Rogers, executive vice-president of First Bank of Utica, “Because of the benefits of raising seed corn, we are somewhat insulated from the effects of falling grain prices.”

NORTH DAKOTA The North Dakota RMI for May climbed to 53.9 from April’s 47.8. The farmland-price index jumped to 74.9 from 39.4 in April. North Dakota’s new-hiring index increased to 72.0 from April’s 63.0.

SOUTH DAKOTA The May RMI for South Dakota expanded to 50.5 from April’s 44.1. The farmland-price index for May expanded to 44.5 from April’s 32.1. South Dakota’s new-hiring index rose to 59.8 from 47.6 in April.

WYOMING The May RMI for Wyoming advanced to a weak 48.2 from last month’s 44.3. The May farmland and ranchland-price index expanded to 43.3 from April’s 35.8. Wyoming’s new-hiring index increased to 59.2 from April’s 49.2.

THE BULLISH NEWS

• So far in 2015 the U.S. has gained an average of 217,000 jobs a month, helped by the 280,000 gain for May. Yet that’s 3% less than the 324,000 average for the fourth quarter of last year and smaller than the 260,000 monthly average for all of 2014.

• For May 2015, there were 563,000 discouraged workers (gave up looking for a job and went home). That is down by 165,000 “or a year earlier.”

• The seasonally adjusted consumer price index (CPI) for April was -0.2% lower than the year earlier. The core CPI, which excludes food and energy was up from April 2014 by 1.8%.

• U.S. March home prices rose 0.9% from February and were 5.0% higher than March 2014.

THE BEARISH NEWS

• The U.S. unemployment rate remains near the 5.1% mark.

• The number of U.S. workers employed part-time for economic reasons was 6.7 million.

• April retail sales were essentially unchanged from March readings. The consumer is just not opening up his/her wallet.

WHAT TO WATCH

Retail sales: On June 11 and July 14, retail sales for May and June are released. If annualized growth continues below 3%, do not expect U.S. economic growth to return to healthy levels.

PMIs: On July 1, Creighton and the National Institute for Supply Management will release regional and national PMIs for June. Revisions above 50 will be a drag for the U.S. economy. Another increase in the national number along with an increase in the inflation gauge will be bearish for bond prices with yields going higher.

Wage data: On Thursday July 3, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Year over year (YOY) growth is now running at 2.3%. The number to watch for is 3% YOY. Another healthy monthly gain, above 0.2%, will “fuel the deal” for a Federal Reserve rate hike as early as July 28-29 but not before September 16-17 when their rate setting committee meets.

THE OUTLOOK FROM GOS:

• I expect inflation to begin ticking up in the months ahead. Watch the monthly CPI report from BLS.

• I expect A bit higher inflation readings will push the Federal Reserve to raise its short term interest rates in September of this year.

• The revelation that many U.S. businesses have been exaggerating profits and rising (slightly) interest rates will be a drag of U.S. stocks for most of 2015.

OTHER FORECASTS:

• National Association of Business Economics (NABE) SUMMARY: “NABE’s June Outlook Survey panelists look at the U.S. economy to expand at a slower rate in 2015 compared to their expectations in March,” according to NABE President John Silvia, chief economist of Wells Fargo. “Their views on economic growth have been tempered by sluggish conditions during the first three months of the year that have persisted into the second quarter. The panel’s median forecast calls for real GDP growth to accelerate to approximately 3% at an annualized rate in the third and fourth quarters of 2015, slightly stronger than in the previous survey. But the annual average growth rate for the year is expected to reach only 2.4%, in line with the pace recorded in 2014. Real GDP is forecasted to grow at a stronger 2.9% clip in 2016, unchanged from the March survey.”

• Christine LaGarde, head of the International Monetary Fund, advised the U.S. Congress to ignore the federal deficit and spend more on infrastructure. She also chided the U.S. Federal Reserve to hold off on raising interest rates until 2016. The U.S. is not suffering from too high interest rates and too little federal spending. This type of counsel is what gets Europe/Greece into economic trouble.

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For ongoing economic news and developments, visit our blog at: www.economic trends.blogspot.com

This month’s survey results will be released on the third Thursday of the month, June 18.