

## High U.S. Taxes May Push Pfizer to Ireland: Botox Will Take Wrinkles Out of Viagra

Pfizer, a 166-year-old New York City headquartered company, is considering leaving the U.S. for more tax-friendly Ireland in what is termed a tax inversion. Pfizer, a \$300 billion U.S. bio-pharmaceutical firm, will purchase the smaller Irish firm Allergan, maker of Botox, for \$120 billion. Pfizer, producer of Viagra, will then move its U.S. headquarters, where its corporate tax rate approaches 40 percent, to Dublin with a 12.5 percent tax rate.

In 2014, Pfizer paid U.S. income taxes of \$3.1 billion. Pfizer would have saved approximately \$2.0 billion in 2014 income taxes by being Dublin headquartered. As a result of the third high-est corporate income tax rate in the world at 39.1 percent, exceeded only by Chad and the United Arab Emirates, the U.S. has suffered the loss of 55 U.S. firms via tax inversions in the past year. The avalanche of inversions pushed President Obama to brand the inversions as "unpatriotic."

Instead of issuing such hyperbole, Obama should take action that would both increase tax collections and reduce the legal and administrative costs associated with tax inversion deals. Currently, it is estimated that U.S. firms hold more than \$2.1 trillion outside the U.S. By reducing the income tax rate on repatriated earnings from more than 35 percent to 10 percent, current tax collections would rise by as much as \$210 billion and importantly, it would reduce the motivation to engage in an inversion. This action should then be followed up by a permanent corporate income tax rate cut. But instead of positive legislative steps such as this, the U.S. Treasury responded with stiffened regulations in a futile effort to limit such corporate moves. Unfortunately, Pfizer will not be the last U.S. firm to hoist shareholder value by moving abroad. Ernie Goss.

## MAINSTREET RESULTS

### Rural Mainstreet Index Falls Below Growth Neutral for October: Cash Rents on Farmland Tumble

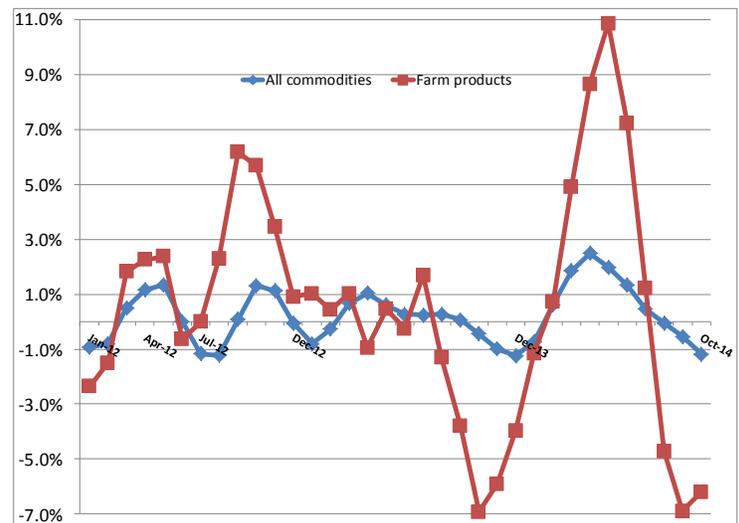
Table 1: The Mainstreet Economy	Oct 2014	Sep 2015	Oct 2015
Area Economic Index	43.4	49.0	44.4
Loan volume	71.7	72.0	71.6
Checking deposits	49.1	54.2	51.2
Certificate of deposits	40.4	41.7	40.9
Farm land prices	20.2	35.5	31.0
Farm equipment area sales	15.1	14.2	10.8
Home sales	49.0	56.4	58.1
Hiring in the area	55.7	54.3	52.4
Retail Business	44.4	49.0	44.4
Economy 6 months from now	34.6	43.8	42.1

#### Survey Results at a Glance:

- For a second straight month, the Rural Mainstreet Index fall below growth neutral.
- Bankers report that almost one-third of corn sales below breakeven.
- Farm equipment sales decline to record low.

- Cash rents plummet by approximately 15 percent from last year at this time.

Price changes, 3 month moving average, 2012- October 2014



The Creighton University Rural Mainstreet Index for October fell from September'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, sank to 44.4 from September's 49.0 and well below August's growth neutral 50.0. In fact, not one of the 10 states surveyed had an RMI above 50.0.

This is the third straight month that the overall index has declined, reflecting weakness stemming from lower agriculture and energy commodity prices and from downturns in manufacturing exports. Regional manufacturers are experiencing weaker conditions. For example, James Shafer, CEO of The First National Bank in Tremont, Illinois, reported, "Caterpillar's announced layoffs of 5,000 employees are having a negative impact on the entire central Illinois."

**Farming and ranching:** The farmland and ranchland price index for October fell to 31.0 from 35.5 in September. This is the 23rd straight month the index has moved below growth neutral. But, as in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices.

This month bankers reported on the level of cash rents for farmland. On average, yearly cash rents across the region were \$229 per acre. This is well below rents recorded six months ago and this is the first time that we measured any real downturn in cash rents.

According to David Steffensmeier, president of the First National Bank in Beemer, Nebraska, "Since corn and soybean prices are down a minimum of 25 percent, overall cash rent needs to adjust down as well. It will be interesting to watch if that is possible this fall and winter."

The October farm equipment-sales index slumped to a record low 10.8 from September's anemic 14.2. The 2014 and 2015 downturns in farm income continue to reduce sales and production of agriculture equipment dealers and producers

across the region. Bankers remain pessimistic about the short and intermediate prospects for agriculture equipment dealers and producers on Rural Mainstreet.

**Banking:** The October loan-volume index dipped to 71.6 from last month’s 72.0. The checking-deposit index declined to 51.2 from September’s 54.2, while the index for certificates of deposit and other savings instruments dipped to 40.9 from 41.7 in September.

**Hiring:** Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and energy, Rural Mainstreet businesses continue to add workers to their payrolls but at a slightly lower pace. The hiring index fell to a still solid 52.4 from 54.3 in September.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, slid to 42.1 from 43.8 in September. Declines for manufacturing tied to agricultural commodity and energy prices pushed bankers’ economic outlook lower for the month.

**Home and retail sales:** The October home-sales index improved to 58.1 from 56.4 in September. The October retail-sales index decreased to 44.4 from 49.0 last month. Home sales on Rural Mainstreet have been very healthy over the last several months. On the other hand, Creighton’s monthly survey has yet to measure any upturn in retail sales resulting from the downturn in fuel prices. In fact, retail sales continue to fall.

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 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 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.

## MAINSTREET ON YOUR STREET

### COLORADO

The state’s Rural Mainstreet Index (RMI) dipped to 43.8 from 48.8 in September. The farmland and ranchland price index plummeted to 24.0 from September’s 47.4. Colorado’s hiring index for October declined to 50.5 from September very strong 60.1.

### ILLINOIS

The October RMI for Illinois declined to 44.5 from 49.0 in September. The farmland-price index dropped to 26.8 from September’s 28.8. The state’s new-hiring index sank to 51.6 from last month’s 53.3.

### IOWA

The October RMI for Iowa sank to 46.9 from September’s 54.2. Iowa’s farmland-price index for October slipped to 42.5 from September’s 44.0. Iowa’s new-hiring index for October decreased to 57.9 from 60.0 in September.

### KANSAS

The Kansas RMI for October slid to 42.5 from September’s 48.6. The state’s farmland-price index for October slipped to 21.8 from September’s 27.0. The new-hiring index for the state declined to 49.7 from 51.9 in September.

### MINNESOTA

The October RMI for Minnesota slumped to 44.0 from September’s 49.2. Minnesota’s farmland-price index increased to 34.2 from 33.0 in September. The new-hiring index for the state declined to 52.9 from last month’s 54.6.

### MISSOURI

The October RMI for Missouri dipped to 45.5 from 47.4 in September. The farmland-price index fell to 18.8 from September’s 30.9. Missouri’s new-hiring index expanded to a weak 48.4 from September’s 44.0.

### NEBRASKA

The Nebraska RMI for October slumped to 45.2 from 47.3 in September. The state’s farmland-price index increased to 21.8 from September’s 18.7. Nebraska’s new-hiring index advanced to a weak 49.7 from 48.6 in September.

### NORTH DAKOTA

The North Dakota RMI for October decreased to 34.8 from 40.8 in September. The farmland-price index advanced to 37.0 from 17.8 in September. North Dakota’s new-hiring index declined to 37.7 from September’s 44.2.

### SOUTH DAKOTA

The October RMI for South Dakota fell to 47.9 from September’s 54.4. The farmland-price index sank to 50.0 from 53.3 in September. South Dakota’s new-hiring index declined to 60.9 from September’s very strong 62.4.

### WYOMING

The October RMI for Wyoming slumped to 46.3 from September’s 50.4. The October farmland and ranchland-price index slipped to 29.7 from 30.8 in September. Wyoming’s new-hiring index slipped to 52.8 from September’s 53.4.

## THE BULLISH NEWS

- The U.S. added 271,000 jobs in October and the unemployment rate declined to 5.0%. This is strong and well above expectations. It almost locks the Fed into raising rates at its December 2015 meetings.
- The Case-Shiller home price index for August 2015 was 4.7% above that for August 2014. We are tracking more and more housing price bubbles across the U.S.

## THE BEARISH NEWS

- The U.S. gross domestic product rose at an annualized rate of 1.5% in quarter 3, 2015. This is less than half of what we should be tracking to gauge this as a healthy economy.

- The number of first-time home buyers fell to its lowest level in 3 decades. Stiffer lending regulations and college student loans are restraining this segment of the market.

## WHAT TO WATCH

- **Federal Reserve:** On Dec. 16, the Fed will announce any change in short term interest rates. A 25 basis point (¼%) will be baked into markets by then. Pay special attention to Yellen’s language in the press release.
- **PMIs:** On Dec. 1, the first business day of December, Creighton and the National Institute for Supply Management will release regional and national PMIs for November. Both PMIs are moving down. A national PMI below growth neutral will be bearish for stocks but bullish for bond prices. Also note the inflation gauges from the reports.
- **The Yield on the 10-Year U.S. Treasury bond:** On finance.yahoo follow the yield on this long-bond yield for evidence or rising inflationary pressures. Yields above 2.7% are early warnings of higher interest rates in the months ahead.

## THE OUTLOOK

### FROM GOSS:

- I expect a 25 basis point (¼%) increase in short term interest rates from the Federal Reserve in December (90% likelihood).
- Manufacturing, especially that linked to agriculture and energy will continue to limp along with overall job losses.

### OTHER FORECASTS:

- National Association of Business Economics (November 2015): “The October 2015 Business Conditions Survey results show a majority of panelists expects continued growth for the remainder of 2015,” said NABE President Lisa Emsbo-Mattingly, director of research, Global Asset Allocation at Fidelity Investments. “Respondents again marginally rolled back the optimism of their outlook. While four-fifths of the panel expect real GDP growth of more than 2% for the next year, the percentage expecting growth above 3% has fallen to 7% from 16% in July and 29% in April.” “The panel continues to have a positive outlook, but third-quarter performance and fourth-quarter expectations softened across most indicators,” said Survey Chair Jim Diffley, senior director at IHS. “Since the July survey, respondents report slower increases in profits, prices, wages and salaries, capital spending, and employment. And expectations for increases in the coming quarter declined for sales, prices, material costs, wages and employment.”

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- A government probe of ExxonMobil, is aimed at silencing the firm. The investigation by New York Attorney General Eric Schneiderman seeks to punish ExxonMobil for supporting research that contradicts global climate change dogma. Trampling constitutional rights of those that question “accepted science” is downright Un-American.

## FOLLOW ERNIE

Follow Ernie Goss on Twitter [www.twitter.com/erniegoss](http://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.economicstrends.blogspot.com](http://www.economicstrends.blogspot.com)

This month’s survey results will be released on the third Thursday of the month, Nov. 15.