

Cubs Win World Series, Trump Triumphs, What's Next? Tax Cuts, Faster Growth, and More U.S. Investment

For the first time in 108 years, the Cubs won the World Series and U.S. voters elected its first president to have never held political office, nor served in the military. What's next, "Browns Win Super Bowl?"

While much is unknown regarding the Trump presidency, several changes are very, very likely. One change that I place the likelihood at 99.9% is a significant tax cut on corporate earnings of U.S. firms held over-seas. Currently these earnings are not taxed by the IRS until they are brought home or repatriated. According to the Congressional Joint Committee on Taxation, the total untaxed earnings of U.S. corporations held abroad is approximately \$2.6 trillion with Apple alone stowing \$181 billion in foreign financial vaults.

It is likely that these earnings would flow back to the U.S. with firms increasing investment in plant and equipment or rewarding investors with cash dividends or stock buybacks. Regardless of the usage, the taxes, investment, or dividends would be a significant stimulus to the U.S. economy potentially exceeding the impact of the Obama 2009 Stimulus Package. Goldman Sachs estimated that reducing the rate to 14% from the current 35% levy would add \$240 billion to the federal coffers over and above the gains for state tax collections. It should be done; it will be done. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Plummets to Lowest Level Since Recession: Negative Cash Flows for One of Five Grain Farmers

Table 1: The Mainstreet Economy	Oct 2015	Sep 2016	Oct 2016
Area Economic Index	44.4	37.3	31.8
Loan volume	71.6	72.1	71.6
Checking deposits	51.2	50.0	63.7
Certificate of deposits	40.9	51.5	40.9
Farm land prices	31.0	30.3	25.0
Farm equipment area sales	10.8	14.3	13.1
Home sales	58.1	57.2	50.1
Hiring in the area	52.4	54.8	45.4
Retail Business	44.4	33.4	36.3

Survey Results at a Glance:

- For a 14th straight month, the Rural Mainstreet Index fell below growth neutral.
- Overall index slumps to lowest level since April 2009.
- Bank CEOs project more than one in five farmers with negative 2016 cash flows.
- More than one in four bank CEOs expect rising regulatory costs to be the biggest challenge to their bank operations over the next 5 years.
- Gains reported for Colorado, Iowa, Nebraska and South Dakota while losses were recorded for Illinois, Kansas, Minnesota, Missouri, North Dakota and Wyoming.

Rural Mainstreet, Economic Indicators, Oct. 2014 – Oct. 2016
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index sank for October and remained below growth neutral for the 14th 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 index, which ranges between 0 and 100 fell to 31.8 from September's 37.3. This month's reading is the lowest recorded since April 2009.

Over the past 12 months, livestock commodity prices have tumbled by 19.7 percent and grain commodity prices have slumped by 18.5 percent. The economic fallout from this price weakness continues to push growth into negative territory for six of ten states in the region.

Jon Schmaderer, president of Tri-County Bank in Stuart, Nebraska said, "The calf market has now officially followed suit with grain and other livestock pricing declines." Another bank CEO reported calf prices are going to be down 30 to 40 percent, which will have a large downward economic impact.

Bank CEOs project that more than one in five grain farmers, or 21.6 percent, will suffer negative cash flows for 2016. This is 2.0 percent higher than the July 2016 projection when the same question was asked.

Farming and ranching: The farmland and ranchland-price index for October fell to 25.0 from September's 40.3. This is the 35th straight month the index has languished below growth neutral 50.0.

The October farm equipment-sales index sank to 13.1 from September's 14.3. Weakness in farm income and low agricultural commodity prices continue to restrain the sale of agriculture equipment across the region. This is having a significant and negative impact on both farm equipment dealers and agricultural equipment manufacturers across the region.

Banking: Borrowing by farmers remains strong as the October loan-volume index slipped to a strong 71.6 from last month's 72.1. The checking-deposit index climbed to 63.7 from 50.0 in September, while the index for certificates of deposit and other savings instruments fell to 40.9 from 51.5 in September.

This month bankers were asked to identify the biggest challenge to their banking operations. More than one of four, or 27.3 percent, identified rising regulatory costs as their greatest challenge over the next five years. Almost one in 10, or 9.1 percent, reported farm foreclosures as the greatest economic

challenge to their banking operations over a five-year time horizon.

Hiring: For the third time in the past four months, the Rural Mainstreet hiring index moved below growth neutral. The October hiring index declined to 45.4 from 54.8 for September. For the region, Rural Mainstreet employment is down by 1 percent over the past 12 months. Over the same period of time, urban employment for the region expanded by 1.5 percent.

Confidence: The confidence index, which reflects expectations for the economy six months out, was up slightly to 21.6 from September's 21.5, indicating an intense pessimistic outlook among bankers. Continuing weak grain and livestock commodity prices pushed banker's economic outlook to October's and September's frail readings.

Home and retail sales: Home sales remain the positive indicator of the Rural Mainstreet economy with a 50.1 reading for October but down from September index of 57.2. The October retail-sales index increased to a very weak 36.3 from September's 33.4. Despite low inventories of homes for sale, Rural Mainstreet home sales continue on a positive trajectory, but rural retailers, much like their urban counter-parts, are experiencing downturns in sales.

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

Colorado's Rural Mainstreet Index (RMI) climbed to 68.5 from 54.7 in September. The farmland and ranchland-price index fell to 59.7 from September's 69.7. Colorado's hiring index for October sank to a solid 53.1 from September's 73.2. Colorado job growth over the last 12 months; Rural Mainstreet, 2.5 percent; Urban Colorado, 2.8 percent.

ILLINOIS

The October RMI for Illinois slumped to 27.5 from 32.1 in September. The farmland-price index fell to 15.6 from September's 26.3. The state's new-hiring index sank to 42.8 from last month's 50.7. Illinois job growth over the last 12 months; Rural Mainstreet, -2 percent; Urban Illinois 1 percent.

IOWA

The October RMI for Iowa soared to 67.1 from September's 56.2. Iowa's farmland-price index for October increased to 47.8 from 47.2 in September. Iowa's new-hiring index for October declined to a still strong 58.7 from September's 65.1. Iowa job growth over the last 12 months; Rural Mainstreet, 2.4 percent; Urban Iowa,

1.1 percent.

KANSAS

The Kansas RMI for October slumped to 25.7 from September's 35.4. The state's farmland-price index for October tumbled to 18.9 from 24.2 in September. The new-hiring index for Kansas sank to 42.5 from 51.7 in September. Kansas job growth over the last 12 months; Rural Mainstreet, -2.9 percent; Urban Kansas, 0.5 percent.

MINNESOTA

The October RMI for Minnesota tumbled to 26.3 from September's 39.0. Minnesota's farmland-price index fell to 23.8 from 26.3 in September. The new-hiring index for the state declined to 50.0 from last month's 57.5. Minnesota job growth over the last 12 months; Rural Mainstreet, -0.4 percent; Urban Minnesota 1.8 percent.

MISSOURI

The October RMI for Missouri increased to 28.9 from September's 26.4. The farmland-price index fell to 25.8 from September's 29.7. Missouri's new-hiring index plummeted to 18.7 from 35.6 in September. Missouri job growth over the last 12 months; Rural Mainstreet, -6.2 percent; Urban Missouri 1.8 percent.

NEBRASKA

The Nebraska RMI for October sank to 51.1 from September's 61.2. The state's farmland-price index tumbled to 39.0 from September's 46.9. Nebraska's new-hiring index declined to 55.5 from 64.9 in September. Nebraska job growth over the last 12 months; Rural Mainstreet, 0.6 percent; Urban Nebraska, 1.2 percent.

NORTH DAKOTA

The North Dakota RMI for October slipped to 20.2 from 20.9 in September. The farmland-price index dipped to 18.2 from September's 18.7. North Dakota's new-hiring index plummeted to 19.2 from 37.8 in September. North Dakota job growth over the last 12 months; Rural Mainstreet, -7.1 percent; Urban North Dakota, 1.2 percent.

SOUTH DAKOTA

The October RMI for South Dakota soared to 60.6 from September's 52.1. The farmland-price index expanded to 42.3 from September's 41.2. South Dakota's new-hiring index fell to 56.7 from September's 62.8. South Dakota job growth over the last 12 months; Rural Mainstreet, 1.9 percent; Urban South Dakota, 3.4 percent.

WYOMING

The October RMI for Wyoming slumped to 19.8 from 22.3 in September. The October farmland and ranchland-price index declined to 12.5 from September's 19.7. Wyoming's new-hiring index tumbled to 39.9 from September's 48.5. Wyoming job growth over the last 12 months; Rural Mainstreet, -3 percent; Urban Wyoming, -2.6 percent.

THE BULLISH NEWS

- The U.S. economy expanded at an annual rate of 2.9% in the third quarter of 2016, marking the strongest quarter of growth in two years.
- In October 2016, the U.S. added 161,000 jobs with an unemployment rate of 4.9% which was down from 5% in September. Most importantly, wages expanded by

0.4% for the month, the best growth since before the recession.

- The S&P/Case-Shiller home price index for August was up 5.3% above the index for August 2015.

THE BEARISH NEWS

- The Creighton PMI fell below growth neutral for October and the U.S. PMI stood at a weak 51.5 for the month.
- The U.S. labor participation rate, the share of the population (age 16 and above) in the labor force, ticked down to 62.8% as 435,000 Americans left the labor force (often termed discouraged workers).

WHAT TO WATCH

- **Federal Reserve (Fed) Meetings:** On Dec. 14, the interest rate setting committee of the Fed meets to consider changing short-term interest rates. While they will very likely raise short term rates by ¼%, they may also signal another rate hike in the first quarter of 2017. This would bearish news for stocks.
- **The Jobs Report:** On Dec. 2, the Bureau of Labor Statistics will release the November jobs report. Another very strong report (i.e. more than 200,000 jobs) will push the Federal Reserve to raise rates in December, and again in the first quarter of 2017.
- **PMIs for US and Mid-America:** On Dec. 1, Creighton and the Institute for Supply Management will release their readings on manufacturing in Mid-America and U.S. Another set of readings below growth neutral 50.0 will be bearish for U.S. stocks and bullish for bond prices.

THE OUTLOOK

FROM GOSS:

- **I put the likelihood of a Federal Reserve rate hike in December at 95%. **I expect the Trump Administration and Congress to cut corporate rates during in the first quarter of 2017. **I expect short term and long term interest rates to continue to move higher through the first half of 2017. **I expect the Trump Administration to jump start the Keystone Pipeline project in the first half of 2017.

OTHER FORECASTS:

- **The Conference Board:** "The US economy expanded at 2.9% in the third quarter, following a disappointing 1.1% annualized growth rate in the first half of 2016. The 2.9% pace, which is above trend growth, resulted from likely one-time gains in trade (driven by a short-term surge in soybeans) and an inventory build after the run off of the past five quarters. The underlying trend of consumption and investment remained modest, growing at only 1.4%. The fourth quarter will mostly depend on consumer's willingness to spend this holiday season. Business investment will likely remain weak given the downside risks from subdued domestic demand, global trade and geopolitical events even as the tension of US presidential elections resides. Net trade will likely hold back growth as soybean exports reverse. The Fed

is widely expected to raise rates in December, given where employment and inflation are. And it might even be willing to run the economy hot for some time with very gradual continued 'normalizing' of rates next year. Oil prices and import prices are likely to temporarily push the top line above the Fed's 2% target for a brief period. Supply-constrained job growth and continued low productivity gains will tamp down economic growth and corporate profits in 2017."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The U.S. Justice Department recently proposed that Deutsche Bank pay \$14 billion for its role in a mortgage securities scandal that contributed to the 2008-2009 financial meltdown. This fine or "shakedown" represents two-thirds of the market value of the bank and will further damage the international banking sector and reduce business lending at a time when it should be growing.

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This month's survey results will be released on the third Thursday of the month, Nov. 17.