

## Kansas Cuts Taxes and Expands the Economy: Earnings Growth Four Times That of U.S. and Neighbors Since Passage

In 2012, Kansas Governor Brownback pushed the Legislature to whack individual tax rates by 25%, to re-peal the tax on sole proprietorships, and to increase the standard deduction. In 2013, the Legislature cut taxes again. Since passage in 2012, how has the Kansas economy responded to these dramatic tax cuts? Post Tax-Cut Earnings: Since QIV, 2012, Kansas grew its personal income by 2.92% which was higher than the U.S. gain of 2.85%, and was greater than the growth experienced by each state bordering Kansas, except Colorado. Additionally in terms of average weekly earnings, Kansas experienced an increase of 4.82% which was almost four times that of the U.S., more than four times that of Missouri, approximately seven times that of Nebraska, and nearly four times that of Oklahoma. Of Kansas' neighbors, only Colorado with 4.82% average weekly wage growth outperformed Kansas. Post Tax-Cut Job Performance: Between the last quarter of 2012 and August 2014, the U.S. and each of Kansas' neighbors, except of Nebraska, experienced higher job growth than Kansas. However, much of Kansas' lower job growth can be explained by the fact that during this period, Kansas reduced state and local government jobs by 1.4% while all of Kansas' neighbors and the combined 50 U.S. states increased state and local government employment. In terms of unemployment, Kansas August 2014 joblessness rate was 4.9% compared to rates of 6.1% for the U.S., 5.1% for Colorado, 6.3% for Missouri, 3.6% for Nebraska, and 4.7% for Oklahoma. Kansas job and income data since the tax cut show that, except for Colorado, the state economy has outperformed, by a wide margin, that of each of its neighbors and the U.S. To remain competitive, expect Kansas' neighbors to reduce state and local taxes in the years ahead. Ernie Goss.

## MAINSTREET RESULTS

### Rural Mainstreet Index Sinks for September: Farmland Prices and Ag Equipment Sales Plummet

Tables 1 below summarizes the findings from this month's survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

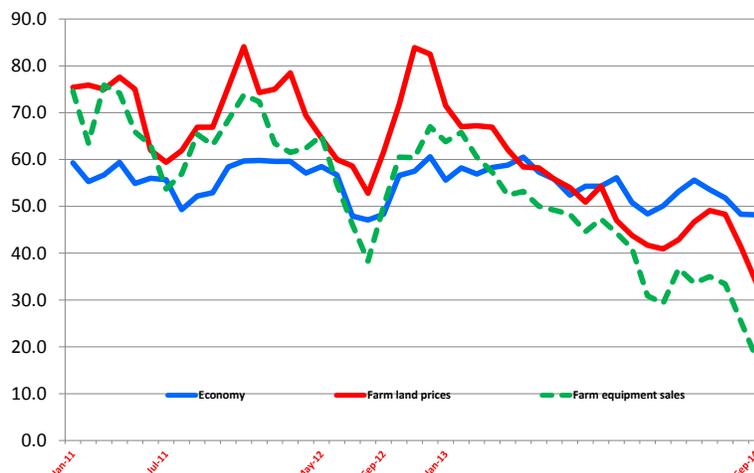
Table 1: The Mainstreet Economy	Sep 2013	Aug 2014	Sep 2014
Area Economic Index	52.4	48.3	48.2
Loan volume	73.5	73.4	75.9
Checking deposits	56.3	46.7	56.4
Certificate of deposits	43.8	32.5	42.8
Farm land prices	54.0	41.4	33.7
Farm equipment area sales	48.3	25.5	17.6
Home sales	60.2	59.5	57.3
Hiring in the area	53.2	56.8	56.5
Retail Business	49.2	47.5	49.9
Economy 6 months from now	46.1	39.9	33.4

#### Survey Results at a Glance:

- Rural Mainstreet Index fell for the fourth straight month to its lowest level in more than two years.

- Farmland prices decline for 10th straight month as the pace of decline quickens.
- For a second straight month farm-equipment sales declined to a record low level. On average, bankers expect a 13.8 percent decline in farm-equipment sales for the next year.
- Bankers reported they are beginning to see farm equipment dealers going out of business.
- Approximately 45.3 percent of bank CEOs report strong livestock prices are having a positive impact on their local economies.

Rural Mainstreet Economy January '11 – September '14  
Creighton University



The Rural Mainstreet Index moved to its lowest level in more than two years, according to the September survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. The index has been trending lower since June 2013 when the reading stood at 60.5.

**Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100, with 50.0 representing growth neutral, fell slightly to 48.2 from August's 48.3. From this time last year, grain prices are down by an average of 29.4 percent according to government data. This huge decline has had a significant negative influence on most of the factors from our surveys over the last several months.

Jeff Bonnett, president of Havana National Bank in Havana, Ill., said "As our farm lenders have pointed out, if current grain prices do not rebound in 2015, cash flow monitoring for our farm operators will be our major challenge."

**Farming and ranching:** The farmland and ranchland-price index for September slumped to 33.7, its lowest level since March 2009 and down from 41.4 in August. Much weaker crop prices are taking the air out of agriculture land prices. This is the tenth straight month that the index has moved below growth neutral.

The September farm-equipment sales index slumped to a record low 17.6 from August's 25.5, which was a record low. The index has been below growth neutral for 14 straight months. This is lowest reading that we have recorded for the equipment index since we began the monthly survey in 2006. The rapid decline in agriculture commodity prices has pushed farmers to shrink their equipment purchases.

This month bankers were asked to project farm equipment

sales for the next year. Approximately 94.4 percent expect farm-equipment sales to decline for the next year. Only 3.7 percent of the bank CEOs expect an increase in farm-equipment sales for the next year. On average, bankers expect a 13.8 percent decline in farm-equipment sales for the next year.

Larry Rogers, executive vice-president of First Bank of Utica, Neb., reported used combine sales prices were no more than 50 percent of what they were last year at this time. Another banker reported that farm-equipment sales for next year will depend on what the U.S. Congress does in terms of accelerated depreciation.

**Banking:** The September loan-volume index advanced to a strong 75.9 from 73.4 in August. The checking-deposit index expanded to 56.4 from August's 46.7, while the index for certificates of deposit and other savings instruments moved to a weak 42.8 from last month's 32.5.

We continue to track significant growth in borrowing by farmers in the region as farmers selling at today's crop commodity prices have moved below breakeven for most crops. Lending is likely to continue to expand as a result of low crop commodity prices in the pipeline.

According to bankers, one-fourth of recent farmland sales were for cash (not financed). This is down from 29 percent reported last year at this time and lower than the 26 percent reported last month. "The percent of farmland sales that is financed is growing, but at a very slow pace, according to our surveys. Plummeting grain prices have yet to push farmers into boosting borrowing to support farmland purchases.

**Hiring:** Rural Mainstreet businesses continue to hire at a solid pace, though the September hiring index declined to a solid 56.5 from August's 56.8. Despite weaker conditions in the crop farming sector, businesses in the Rural Mainstreet economy are adding jobs at an annualized pace of 1.6 percent which is well above the historical average.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, plummeted to 33.4 from last month's 39.9. Much weaker agriculture commodity prices negatively affected the outlook of bank CEOs and more than offset an improving outlook for livestock producers.

**Home and retail sales:** The September home-sales index dipped to a still solid 57.3 from 59.5 in August. The September retail sales index grew to 49.9 from 47.5 in August. Much like the national economy, the Rural Mainstreet economy is experiencing sub-par retail buying conditions.

Jim Eckert, president of Anchor State Bank in Anchor, Ill., said, "Recent declines in crop prices will undoubtedly result in less farmer spending for equipment and consumer goods." Eckert expects land prices and cash rents to decline as well.

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) remained above the 50.0 threshold for the seventh straight month, though it declined to 51.8 from 51.9 in August. The farmland and ranchland-price index fell to 55.9 from August's 62.5. Colorado's hiring index for August dipped to 72.7 from August's 73.0.

### ILLINOIS

For a third straight month, Illinois' RMI fell, moving to 41.2 from August's 44.6. The state's farmland-price index sank to 31.1 from 37.7 in August. The new-hiring index fell in September to 52.8 from 53.1 in August. Pete Haddeland, CEO of the First National Bank in Mahanomen said, "Equipment dealers used inventory is going up. We are starting to see some dealers going out of business."

### IOWA

The September RMI for Iowa sank to 47.2 from August's 50.6. The state's farmland-price index for September slumped to 34.1 from 40.7 in August. Iowa's new-hiring index for September slipped to 55.2 from August's 55.5.

### KANSAS

The Kansas RMI for September dipped to 50.3 from August's 50.4. The farmland-price index for September dropped to 38.7 from August's 45.3. The state's new-hiring index fell to a still healthy 58.9 from 59.2 in August.

### MINNESOTA

The RMI for Minnesota dipped to 50.9 from August's 51.0. Minnesota's farmland-price index for September declined to 41.2 from 47.8 in August. The new-hiring index for the state decreased to 60.9 from August's 61.2.

### MISSOURI

The September RMI for Missouri sank to 47.8 from August's 51.6. The farmland-price index for September decreased to 54.1 from 60.7 in August. Missouri's new-hiring index fell to 71.2 from August's 71.5.

### NEBRASKA

The Nebraska RMI for September fell to 44.3 from 47.8 in August. The state's farmland-price index for September sank to 23.8 from 30.4 in August. Nebraska's new-hiring index decreased to 47.0 from August's 47.3. Lydell Woodbury, executive vice-president of First Nebraska Bank in Stanton reported, "Our feeders are continuing to reduce debt and fund the higher cost of replacements."

### NORTH DAKOTA

The North Dakota RMI for September climbed to 55.9 from August's 55.2. The farmland-price index fell to 65.1 from 71.7 in August. North Dakota's new-hiring index rose to 62.5 from August's 62.4.

## THE OUTLOOK

### FROM GOSS:

- I expect Quarter 3 GDP growth to come in at a tepid 2%. Too many of the Q3 jobs added were part-time and/or low paying jobs.
- I expect housing prices growth to continue to move lower but remain positive.

### OTHER FORECASTS:

- The Conference Board (October 2014): GDP in the United States is projected to grow at 2.0 percent in 2014, with the second half of this year revised lower—from an average of a 2.8 percent pace to about 2.5 percent pace. The continued slow pace of wage growth and consumer reluctance to finance purchasing (despite improved confidence) implies a little less spending than previously estimated. And, consequently, both investment and inventories are also likely to expand a little less than expected. Still, 2.5 percent growth is slightly above long-trend growth, and it is likely to continue into 2015. Despite these anemic growth rates, the US economy might be approaching full capacity soon.

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Corporate Welfare at Its Worst. New York Democrat Governor Cuomo pledged more than \$225 million to refurbish a steel plant to assist billionaire Leon Musk's SolarCity. SolarCity will pay \$1 per month for 10 years to lease the plant. In total, New York will pay \$725 million over two years or \$100,000 per job. Democrats and Republicans are both captives of "big" business. They just serve different "big."

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### SOUTH DAKOTA

The September RMI for South Dakota advanced to 49.6 from August's 45.0. The farmland-price index for September slumped to 32.8 from last month's 39.4. South Dakota's new-hiring index dipped to 54.2 from 54.5 in August.

### WYOMING

The September RMI for Wyoming sank to 50.5 from August's 50.6. The September farmland and ranchland-price index fell to 31.2 from August's 44.9. Wyoming's new-hiring index for September decreased to 50.5 from August's 58.9.

## THE BULLISH NEWS

- The U.S. economy added 248,000 jobs in September and the unemployment rate declined to 5.9% from August's 6.1%.
- Leading economic indicators from Creighton regional survey of supply managers and the Institute for Supply Management's national survey dropped but continue to point to positive growth for the fourth quarter of 2014.
- In the 12 months ending in July 2014, the Case-Shiller index indicated that average U.S. home prices rose by 5.6%, a bit lower than 6.2% for June but still a very healthy value.

## THE BEARISH NEWS

- U.S. average hourly pay dropped by a penny in September. Over the past 12 months, average hourly pay has increased by only 2%, or approximately the rate of inflation.
- While the 0.2% decline in the consumer price index (CPI) for August was good news for the consumer, it raises the concern that the economy is still on shaky grounds.
- More than 97,000 workers left the labor force in September bringing the nation's participation rate (i.e. the share of the working age population in the labor force) to its lowest level in more than 3 decades.

## WHAT TO WATCH

- **GDP:** On Oct. 30, the U.S. BEA releases preliminary estimate of Q3 GDP. Annualized growth of less than 2% will be very disappointing and give bond prices a boost and push interest rates lower.
- **Jobs:** On Friday Nov. 7, the U.S. Bureau of Labor Statistics (BLS) will release employment report for October. Another a strong report (job additions below 200,000) and wage rate growth above 2% will push the Fed to raise interest rates in the first quarter of 2015 instead of the expected second quarter.
- **CPI:** On Oct. 22 and Nov. 20, the Bureau of Labor Statistics releases consumer price indices for September and October, respectively. Monthly increases of more than 0.3% or more will encourage the Fed to begin raising interest rates in the first quarter of 2015.