

Is Trump's Tax Reform for the Rich? Top 1% Pay Seven Times the Rate of Bottom 50%

In September, President Trump unveiled his tax reform plan to a chorus of boos from the big government tax and spend devotees. For example, New York Democrat Senator Schume, Grand Poobah of the big spenders, tweeted, "GOP #TaxReform plan & what @SpeakerRyan says about it are 2 diff things. Says plan is for middle class but 80% is for wealthy-Get real Paul."

According to the Tax Foundation, the latest income tax data show that the top 50% of income earners paid 97.3% of income taxes, with the bottom half of income earners paying only 2.7%. Furthermore, the top 1% of income earners paid an individual income tax rate of 27.1%, which was more than seven times higher than that of the bottom 50% who paid an income tax rate of 3.5%. Thus, a tax reform package that differentially supports low and middle income taxpayers would further distort a tax system that already punishes educational achievement, innovation, and entrepreneurship, all of which lead to income growth.

On top of this, the element of the President's tax reform package garnering the most criticism from sup-posed defenders of low and middle income taxpayers is the elimination of the deduction for state and local in-come taxes. Currently the benefits of this deduction go largely to high income earners, and it encourages state and local taxing units to raise taxes. Eliminating this deduction would cost taxpayers with incomes over \$200,000 an average of \$7,000, but an average of only \$100 for taxpayers making less than \$200,000. To bolster passage of his plan, Trump might channel Nobel prize winning economist Milton Friedman who said, "I am in favor of cutting taxes under any circumstances and for any excuse, for any reason, whenever it's possible." Ernie Goss.

MAINSTREET RESULTS

September Rural Mainstreet Index Reaches 2017 Low: More than Half of Bankers Restructured Farm Loans

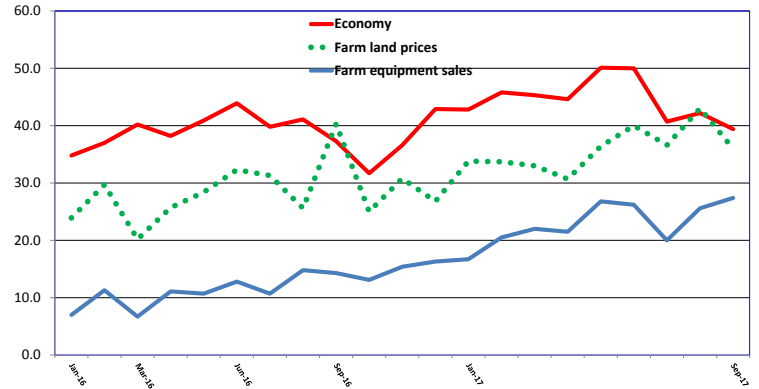
| Table 1: The Mainstreet Economy | Sep 2016 | Aug 2017 | Sep 2017 |
|---------------------------------|----------|----------|----------|
| Area Economic Index | 37.3 | 42.2 | 39.6 |
| Loan volume | 72.1 | 77.8 | 73.2 |
| Checking deposits | 50.0 | 46.7 | 51.2 |
| Certificate of deposits | 51.5 | 46.7 | 46.6 |
| Farm land prices | 30.3 | 43.0 | 36.0 |
| Farm equipment area sales | 14.3 | 25.6 | 27.4 |
| Home sales | 57.2 | 62.5 | 56.0 |
| Hiring in the area | 54.8 | 51.1 | 55.9 |
| Retail Business | 33.4 | 41.1 | 41.9 |

Survey Results at a Glance:

- The overall index sank to its lowest level since December 2016, and remained below growth neutral.
- For the 46th straight month, average farmland prices declined across the 10 state region.
- For the 49th straight month, the agriculture equipment sales index fell below growth neutral.

- As a result of falling farm income, more than 51 percent of bank CEOs, reported restructuring farm loans, and approximately 18.6 percent indicated increasing collateral requirements.
- Bank CEOs reported only a 2.1 percent increase in farm loan defaults over the past year.

Rural Mainstreet, Economic Indicators, Jan. 2016 – September 2017 (50.0 = growth neutral)



The Creighton University Rural Mainstreet Index fell to its lowest level for 2017 and remained below growth neutral for September, according to the latest 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, slumped to 39.6, its lowest since December 2016, and down from 42.2 in August.

As a result of weak farm income, more than one-half, or 51.2 percent of bankers, reported restructuring farm loans while approximately 18.6 percent indicated their bank had increased collateral requirements. Despite weak farm income bank CEOs reported a low 2.1 percent increase in farm loan defaults, and a 4.1 percent rise in farm loan delinquencies.

According to Jeffrey Gerhart, president and chairman of the Bank of Newman Grove in Newman Grove, Nebraska, "For grain farmers we won't know the shortfalls until after harvest depending on yields & prices. For those farmers who have a shortfall, we will work with them in order to help their operations make it through the rough times."

Farming and ranching: The farmland and ranchland-price index for September slumped to 39.6 from 43.0 in August. This is the 46th straight month the index has fallen below growth neutral 50.0.

Moisture conditions across the region are producing a wide range of yields. For example, Bryan Grove, president of American State Bank in Grygla, Minn. said, "Soybean harvest is just beginning with mixed results. Areas that received timely rains should have an average crop. Isolated locations lacking moisture will likely have disappointing soybean yields. Corn will have similar variability."

The September farm equipment-sales index increased to 27.4 from 25.6 in August. This marks the 49th consecutive month the reading has dropped below growth neutral 50.0.

Banking: Borrowing by farmers was strong for September as the

loan-volume index fell to a still strong 73.2 from 77.8 in August. The checking-deposit index was 51.2, up from August's 46.7, while the index for certificates of deposit and other savings instruments slipped to 46.6 from 46.8 in August.

Brian Nicklason, president of Woodland Bank in Grand Rapids, Minnesota, reported, "We are starting to see our usual fall decline in loan demand and deposit run-off a little early."

Hiring: The employment gauge climbed to 55.9 from August's 51.1. Rural Mainstreet businesses not linked to agriculture increased hiring for the month and at a faster pace than in August.

Confidence: The confidence index, which reflects expectations for the economy six months out, increased to a weak 36.1 from 35.6 in August, indicating a continued pessimistic outlook among bankers. "Concerns about trade, drought conditions in portions of the region, and low agriculture commodity prices impaired bankers' economic outlook for the month," said Goss.

Home and retail sales: Home sales moved lower for the Rural Mainstreet economy during September. The September reading fell to 56.0 from August's 62.5. The September retail-sales index increased slightly to 41.9 from 41.1 in August. "Much like their urban counterparts, Rural Mainstreet retailers are experiencing significant pullbacks in sales," reported Goss.

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) dropped to 39.2 from 41.8 in August. The farmland and ranchland-price index sank to 35.7 from August's 42.8. Colorado's hiring index for September climbed to 54.6 from August's 50.4.

ILLINOIS

The September RMI for Illinois rose to 42.2 from 41.2 in August. The farmland-price index slumped to 35.9 from 42.3 in August. The state's new-hiring index rose to 55.4 from last month's 47.5. Jim Eckert, president of Anchor State Bank in Anchor, said, "Early yields indicate crop will be 15-20% less than last year. With this reduction and current low prices our farmers' incomes will be significantly less than 2016."

IOWA

The September RMI for Iowa sank to 39.9 from 42.3 in August. Iowa's farmland-price index for September fell to 36.2 from August's 43.1. Iowa's new-hiring index for September climbed to

57.5 from August's 52.5.

KANSAS

The Kansas RMI for September decreased to 36.5 from August's 40.2. The state's farmland-price index fell to 33.9 from 41.6 in August. The new-hiring index for Kansas slipped to 42.4 from August's 43.0.

MINNESOTA

The September RMI for Minnesota advanced to 50.2 from 42.4 in August. Minnesota's farmland-price index sank to 36.3 from 43.2 in August. The new-hiring index for the state expanded to 58.5 from August's 53.1. Pete Haddeland, CEO of the First National Bank in Mahanomen said, "Pre-lift on beets went well. Dry beans look good."

MISSOURI

The September RMI for Missouri rose to 51.3 from 42.5 in August. The farmland-price index slumped to 38.6 from August's 43.2. Missouri's new-hiring index soared to 73.4 from 53.4 in August.

NEBRASKA

The Nebraska RMI for September declined to 40.2 from 42.9 in August. The state's farmland-price index sank to 36.4 from last month's 43.5. Nebraska's new-hiring index stood at a solid 58.8 from 55.2 in August.

NORTH DAKOTA

The North Dakota RMI for September dropped to 42.2 from August's 50.1. The state's farmland-price index moved to 37.7 from 44.1 in August. North Dakota's new-hiring index soared to 67.9 from 59.1 in August.

SOUTH DAKOTA

The September RMI for South Dakota slipped to 38.1 from August's 38.5. The state's farmland-price index sank to 35.0 from 41.7 in August. South Dakota's new-hiring index improved to 49.7 from August's 43.4.

WYOMING

The September RMI for Wyoming fell to 39.0 from August's 41.2. The September farmland and ranchland-price index slumped to 35.6 from 42.3 in August. Wyoming's new-hiring index advanced to 53.7 from August's 47.5.

THE BULLISH NEWS

- The U.S. average hourly wage for September rose 2.9% from September 2016.
- Last week the U.S. House passed a budget resolution. This is the first step in getting a budget passed for the fiscal year.
- The Case-Shiller home price index for July climbed 5.9% from one year earlier.
- The U.S. trade deficit shrank for fell by \$1.2 billion due to an upturn in exports.

THE BEARISH NEWS

- U.S. beef consumption declined by 15% between 2005 and 2015.
- The yield on the 10-year U.S. Treasury bond rose to

its highest level since July signaling rising expected inflation.

-45.0% (yes that's a minus), the stock price exploded by 86% after the announcement. Remember 1999 when firms magically expanded by including ".com" in their names?

WHAT TO WATCH

- **Jobs Report on November 3:** The Bureau of Labor Statistics will release its employment report for September. Another strong reading on wages will "seal the deal" on a December 2017 Federal Reserve rate hike.
- **Consumer Price Index on November 15:** The Bureau of Labor Statistics will release the inflation gauge for October. An annualized increase above 2.5% will be bullish for stocks prices and bearish for bond prices (rising yields).
- **Third quarter GDP on October 27:** The U.S. Bureau of Economic Analysis will release Q3 GDP. Due to hurricanes Irma and Harvey, a weak number is expected. An annualized growth reading above 2.5% will be very bullish for the economy but bearish for U.S. Treasury bond prices.

THE OUTLOOK

FROM GOSS:

- I expect **one more Federal Reserve rate hike by the end of 2017 (95% likely); **a pickup in the consumer price index as building supply prices are boosted by the Florida and Houston post-hurricane rebuilding. ***long-term interest rates to rise by 0.2% - 0.3% by the end of 2017.

OTHER FORECASTS:

- **National Association of Business Economists:** "Results from the NABE September 2017 Outlook Survey show panelists' expectations for real gross domestic product growth (GDP) in 2017 and 2018 are unchanged from those in the June 2017 survey," said NABE Vice President-Elect Kevin Swift, CBE, chief economist and managing director, American Chemistry Council. "Despite a healthy increase in economic activity since the first quarter of the year, the weak start to the year is expected to hold the average annual real GDP growth rate in 2017 to 2.2%. Real GDP growth is expected to accelerate to 2.4% in 2018. Expectations for nonfarm employment growth are also unchanged from June, and continue to call for a slight deceleration through 2018. However, the median forecast for the unemployment rate is slightly lower than that reported in the June survey, with unemployment expected to decline to an annual average rate of 4.4% in 2017 and to 4.2% in 2018, both below the actual 4.9% rate in 2016."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- **Bubble Anyone?** Last week Bioptix (BIOP), a firm that previously had been licensing fertility hormones for cows, horses and pigs, announced that it was getting into the cryptocurrency business and changed its name to Riot Blockchain. Despite having a return-on-equity of

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This month's survey results will be released on the third Thursday of the month, October 19.