For years, Democrats and some Republicans have argued that a substantial portion of today’s mammoth debt of $16.3 trillion should be pinned on the Bush-tax cuts of 2001 and 2003. Yet in January of this year, these same lawmakers made 95 percent of these cuts permanent. The proponents of this action contend that it will bring fairness to the tax code and reduce the budget deficit. It fails miserably on both counts. First, the tax rate hikes on those making more than $400,000 will only reduce the federal debt by less than 8 percent over the next decade. Second, the Obama Administration argued that the higher rate on the “rich” would insure that they pay their “fair share.” White House Communications Director Dan Pfeiffer reported in a tweet that the tax would “act as a kind of AMT.” Let’s hope not!! In 1969 the Minimum Tax was passed to be rebranded in 1982 as the Alternative Minimum Tax (AMT). The original goal was to hook 155 high-income households that paid no federal income taxes. Currently more than half of AMT tax collections come from taxpayers making between $150,000 and $200,000 and it is estimated that by 2015 over 50 million Americans will pay the AMT. Unfortunately, millionaires continue to thwart the original intent of the AMT and will likewise sidestep the Obama tax hike with the burden falling on thousandaires some time in the near future. Furthermore, despite adding tax loopholes in the recently passed tax bill for Hollywood moviemakers, NASCAR track owners, and Puerto Rican rum producers, President Obama is now calling for the elimination of certain tax deductions for high income individuals. Only tax preparers at H&R Block can appreciate the onerous tax code that the administration continues to litter with subsidies and tax favors for preferred groups. Ernie Goss

**MAINSTREET RESULTS**

Rural Mainstreet Index Remains Healthy: Bankers Expect Modest Impact from 2013 Drought

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Area Economic Index</td>
<td>59.8</td>
<td>60.6</td>
<td>55.6</td>
</tr>
<tr>
<td>Loan volume</td>
<td>45.5</td>
<td>62.1</td>
<td>39.0</td>
</tr>
<tr>
<td>Checking deposits</td>
<td>68.2</td>
<td>75.8</td>
<td>78.1</td>
</tr>
<tr>
<td>Certificate of deposits</td>
<td>47.8</td>
<td>49.2</td>
<td>42.2</td>
</tr>
<tr>
<td>Farm land prices</td>
<td>74.3</td>
<td>82.5</td>
<td>71.5</td>
</tr>
<tr>
<td>Farm equipment area sales</td>
<td>72.3</td>
<td>67.0</td>
<td>63.8</td>
</tr>
<tr>
<td>Home sales</td>
<td>49.2</td>
<td>61.3</td>
<td>55.6</td>
</tr>
<tr>
<td>Hiring in the area</td>
<td>51.5</td>
<td>53.5</td>
<td>52.4</td>
</tr>
<tr>
<td>Retail Business</td>
<td>51.5</td>
<td>59.0</td>
<td>44.5</td>
</tr>
<tr>
<td>Economy 6 months from now</td>
<td>56.1</td>
<td>55.5</td>
<td>55.5</td>
</tr>
</tbody>
</table>

January Survey Results at a Glance:

- More than 60 percent of bankers anticipate a moderate negative to no impact if drought continues.
- A 2013 drought is expected to have the largest impact on livestock producers.

After declining during the summer drought, the Rural Mainstreet economy in January remained above growth neutral for a fifth straight month according to the monthly survey of bank CEOs in a 10-state area. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100 with 50.0 representing growth neutral, dipped to a still solid 55.6 for January from December’s healthier 60.6. Over the past three years the RMI has averaged 55.8. Our survey results indicate that the Rural Mainstreet economy continues to expand at a moderate pace. Rural, agriculturally dependent communities in the region appear to have shed the negative impacts of the 2012 drought.

However, some bankers expect the national economy to weigh on the region. According to Dale Bradley, CEO of The Citizens State Bank, in Miltonvale Kan., “A downturn in the overall economy will also affect our farm economy. I expect both to be negative for 2013. Likewise, Jim Eckert president of Anchor State Bank in Anchor, Ill., reported that small town businesses are signaling that the recession is not over.

**Farming:** After rising above 80 for two straight months, the farmland-price index slumped to a still healthy 71.5 from December’s 82.5 and November’s 83.9. This is the 36th consecutive month that the farmland-price index has risen above growth neutral. The farm equipment-sales index declined to a solid 63.8 from 67.0 in December. Despite continuing drought conditions in much of the region, growth in farmland prices, cash rents and farm equipment sales remains strong. Jeff Bonnett, president of Havana National Bank in Havana, Ill., reported, “The drought had little impact since most of our crops are irrigated and farmland that is not irrigated is covered by disaster crop insurance programs.”

Bryan Grove, president of American State Bank in Grygla, Minn, said, “Although 2012 was much drier than normal in our region of northwest Minnesota, crops were excellent, resulting in great financial progress for agriculture producers. Subsoil moisture is depleted and 2013 will require timely rains.”

This month bankers were asked the impact of continuing drought conditions on the Rural Mainstreet economy. Contrary to my expectations, more than 60 percent of bankers anticipate only a moderate negative to no impact if the drought continues for 2013. Furthermore, approximately 80 percent of bank CEOs report the drought has had no impact on farmland prices.
When asked about sustaining economic damages from a continuation of the drought for 2013, a majority, or 50.8 percent, expects livestock producers to be the most negatively affected. Approximately 38.1 percent of the bankers anticipate that crop farmers will sustain the largest negative impacts. Approximately 11.1 percent of Bank CEOs expect business linked to agriculture and ethanol producers will experience the most negative impacts by a 2013 drought.

**Banking:** For the third time in the past four months, the loan-volume index moved below growth neutral. The index plummeted to 39.0 from December’s strong 62.1 and November’s weak 47.8. The checking-deposit index advanced to 78.1 from 75.8 in December, while the index for certificates of deposit and other savings instruments rose to 42.2 from December’s 40.2. Banking data appear to indicate that the 2012 drought did not weaken, to any great extent, the financial positions of farms and businesses in the region.

**Hiring:** January’s hiring index slipped to 52.4 from 53.5 in December. New hiring in the region continues at a modest pace.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, was unchanged from December’s 55.5. Bankers are reporting healthy current economic growth and expect this growth to remain strong for the first half of 2013.

**Home and retail sales:** The January home-sales index slipped to a solid 55.6 from 61.3 in December. The January retail-sales index tumbled to 44.5 from December’s 59.0.

Each month, community bank presidents and CEOs in nonurban, agriculturally and energy-dependent portions of the 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.

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, president of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

**COLORADO**

For a fourth straight month, Colorado’s Rural Mainstreet Index (RMI) moved above 50.0. The January RMI climbed to 64.1 from December’s 55.9. The farmland and ranchland-price index dipped to 70.6 from December’s 70.7. Colorado’s hiring index for January expanded to 50.0 from December’s 44.9.

**ILLINOIS**

For a fourth consecutive month, the RMI for Illinois remained above growth neutral. The January index declined to 61.3 from December’s 65.2. Farmland prices tumbled to a still healthy 76.7 from December’s 84.2. The state’s new-hiring index increased to 54.1 from 53.9 in December.

**IOWA**

The January RMI for Iowa slipped to 59.0 from December’s 63.6. The farmland-price index declined to 75.4 from December’s 84.2. Iowa’s new-hiring index for January dipped slightly to 53.2 from December’s 53.9. Jim Brown, CEO of Hardin County Savings Bank in Eldora reported that, “Strong earnings, working capital and net worth increases are still the norm, thus the continued increase in land values in Central Iowa.”

**KANSAS**

The Kansas RMI for January tumbled to 53.7 from December’s 67.7. The farmland-price index sank to 75.4 from 82.6 in December. The state’s new-hiring index declined to 48.5 from 52.8 in December.

**MINNESOTA**

The January RMI for Minnesota rose to 71.2 from 69.6 in December. Minnesota’s farmland-price index declined to 85.1 from 87.7 in December. Minnesota’s new-hiring index advanced to 59.7 from December’s 56.2 from November’s 53.2. Pete Haddeland, CEO of First National Bank in Mahnomen, said, “The drought has had little effect in northern Minnesota.”

**MISSOURI**

The January RMI for Missouri sank to 51.5 from December’s 58.7. The farmland-price index decreased to 67.8 from 72.2. Missouri’s new-hiring advanced to 48.2 from 45.9 in December.

**NEBRASKA**

For the first time since September, Nebraska’s Rural Mainstreet economy moved into negative territory. The January RMI slumped to 48.8 from December’s 57.4. The farmland-price index slipped to 66.2 from 84.6 in December. Nebraska’s new-hiring index sank to 47.1 from December’s 54.2. Rick Clements, president of American Exchange Bank in Elmwood, said, “Higher crop prices and crop insurance revenue coverage with low interest rates have made land prices increase dramatically.”

**NORTH DAKOTA**

The North Dakota RMI for January decreased to a regional high of 83.3 from December’s 88.3. The farmland-price index advanced to 85.2 from December’s 84.5. North Dakota’s new-hiring index decreased to 78.3 from December’s 84.9.

**SOUTH DAKOTA**

The January RMI for South Dakota declined to 53.5 from December’s 61.3. The farmland-price index decreased to 71.0 from December’s 81.6. South Dakota’s new-hiring index for January slipped to 50.3 from 52.2 in December.

**WYOMING**

The January RMI for South Dakota declined to 53.5 from December’s 61.3. The farmland-price index decreased to 71.0 from December’s 81.6. South Dakota’s new-hiring index for January slipped to 50.3 from 52.2 in December.

**THE BULLISH NEWS**

- Nonfarm payroll employment rose by 157,000 in January and December and November additions were revised upward.
- Data through November 2012, the S&P/Case-Shiller Home Price Indices, showed home prices rose 4.5% to 5.5% in the 12 months ending in November 2012.
- Both the national and Creighton purchasing management

Visit our website at http://economicoutlook.creighton.edu
indices (PMI) for January increased and were above growth neutral 50.0.

THE BEARISH NEWS

- U.S Q4 gross domestic product dropped by 1/10 of one percent.
- Social security taxes rose by 2% for all workers on January 1, 2013.
- U.S. retail and food services sales for December rose by only 0.5% from November’s level reflecting a mediocre holiday buying season.

WHAT TO WATCH

- **Purchasing Management Indices:** Purchasing Management Indices: On March 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI. A large decline would be very bearish for the economy.

- **Jobs:** On Friday March 8, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for February. Keep an eye on the unemployment rate. An increase to 8% will be somewhat bearish.

- **Retail sales:** Around the middle of each month the U.S. Census Bureau releases its retail sales data for the previous month. Monthly growth of more than 0.5% is a very positive economic signal.

THE OUTLOOK

FROM GOSS:

- I still expect more European economic “flair ups.” Greece, Spain and Italy have yet to solve their fundamental economic problem (making economic promises that cannot be fulfilled).

- China will expand its purchases of U.S. businesses and other non-financial assets in 2013. These purchases will be supported by China’s reduced buying of U.S. Treasury bonds. This will tend to increase U.S. interest rates with the Yuan to dollar ratio changing little despite increasing pressure from the U.S. Congress and White House.

OTHER FORECASTS:

- “ICBA to Financial Crisis Commission: Too-Big-to-Fail Must End. Despite Challenges, Community Banks Continue To Lend.” The Independent Community Bankers of America (ICBA) today told the Financial Crisis Inquiry Commission that too-big-to-fail institutions and shadow banks were the root cause of the financial crisis and that our nation’s more than 8,000 community banks are still meeting the credit needs of their communities and helping in the nation’s economic recovery. ICBA also made recommendations to help community banks continue to lend to the increasingly important small-business sector.

GOSS EGGS
(RECENT DUMB ECONOMIC MOVES)

- Members of Congress and the Administration have spent years blaming the so-called Bush tax cuts for the escalating federal debt, currently totaling $16.3 trillion. In January 2013, these same individuals heralded the permanent extension of 95% of the cuts as a component of deficit reduction and economic stimulation.

FOLLOW ERNIE

Follow Ernie Goss on Twitter 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.economictrends.blogspot.com

Write to us at ernieg@creighton.edu