

Incentives for Not Working Expand at Almost Triple the Pace of Incentives for Working

Despite earning \$5,000 per month, Chris Jones, single father of two children under 10 years of age, living and working in Santa Fe, New Mexico, quit his tech support job at IT Solutions on September 1, 2016. It was a good financial move. You see by quitting early he qualified for the earned income tax credit (EITC) and a host of other government support payments unavailable to him if he had earned his full \$60,000 for the full year.

By leaving the labor market, he would now qualify for 2016 benefits of food stamps or SNAP of \$2,044, EITC of \$974, and New Mexico rental assistance of \$1,636. Additionally had Jones continued to work, he would have paid an additional \$3,120 in federal income taxes, \$980 in state income taxes, \$1,200 in social security taxes, after-school day care of \$3,852, and family health insurance of \$1,200. In total, assuming a 40-hour work week, Jones would have earned a paltry net \$9.60 per hour for the remaining four months of 2016 compared to his \$31.25 per hour for the first 8 months of 2016.

Given the myriad of economic incentives for not working, it is not surprising that in 2016, the percentage of the population over age 15 in the labor force dropped to its lowest level since 1976. As in the case of Jones, one of the chief reasons is that the financial incentives for not working furnished by federal, state and local governments has soared, while the economic inducements for working provided by business enterprises has expanded at a more modest pace. Between 1990 and 2015, U.S. wages and salaries per worker advanced by 126.6%, while government transfer payments, including SNAP, Medicaid, EITC, and rent assistance provided to non-workers, or workers with a soft linkage to the labor market, more than tripled at 358.6% per capita. One of the goals of any tax reform coming from Washington should be closing this gap between the growth in wages and that of transfer payments. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Sinks for the Month: Farm Loans Rise to Record Level

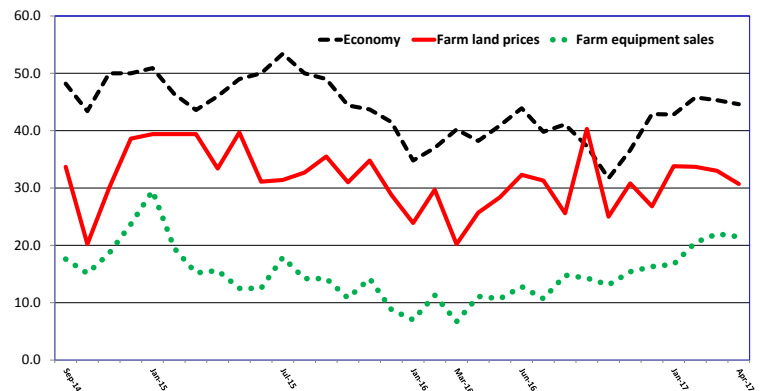
Table 1: The Mainstreet Economy	Apr 2016	Mar 2017	Apr 2017
Area Economic Index	38.0	45.3	44.6
Loan volume	71.8	58.4	81.6
Checking deposits	47.8	56.0	52.2
Certificate of deposits	44.4	47.6	44.6
Farm land prices	26.7	33.0	30.7
Farm equipment area sales	11.1	22.0	21.5
Home sales	58.9	56.2	56.8
Hiring in the area	50.0	59.6	57.8
Retail Business	37.8	41.5	40.2

Survey Results at a Glance:

- The overall index fell below growth neutral for the 20th straight month.
- Loan volume soars to record level as banks reject fewer loan applications.

- Almost one-third of bankers indicate no change in lending practices stemming from the downturn in the farm economy.
- For 2017, bank CEOs expect approximate cash expenses to exceed cash revenues for 17.1 percent of grain farmers, down from 19.5 percent in 2016.
- Farmland prices declined for the 41st straight month, but the percent of cash farmland sales remained steady from 2015.

Rural Mainstreet, Economic Indicators, Sept. 2014 – April 2017
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index remained weak with a reading below growth neutral for the 20th 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, slipped to 44.6 from 45.3 in March. The last time the overall index was at or above growth neutral was August 2015.

Weak farm commodity prices continue to squeeze Rural Mainstreet economies. Over the last 12 months, livestock commodity prices have tumbled by 5.8 percent and grain commodity prices have slumped by 4.5 percent. The U.S. Department of Agriculture is estimating 2017 will mark the fourth consecutive year that farm income has declined. This downward trend has pushed our survey results into negative territory.

Farming and ranching: The farmland and ranchland-price index for April slumped to a frail 30.7 from March's 33.0. This is the 41st straight month the index has languished below growth neutral 50.0.

According to Pete Haddeland, CEO of the First National Bank in Mahanomen, Minnesota, "We are seeing a lot of farm auction sales the last 6 months. Both retirement and getting out of farming."

The April farm equipment-sales index sank to a very weak 21.5 from 22.0 in February. This marks the 44th consecutive month the reading has fallen below growth neutral 50.0.

Banking: Borrowing by farmers soared for April as the loan-volume index advanced to a record 81.6 from last month's 58.4. The checking-deposit index slumped to 52.2 from 56.0 in March while the index for certificates of deposit and other savings instruments declined to 44.5 from 47.6 in March.

According to Jim Eckert, president of Anchor State Bank in

Anchor, Illinois, “We feel that all our farmers have sufficient equity and determination to survive the current downturn in the farm economy.”

Bank reactions to falling farm income since 2013 have been mixed according to Creighton’s April survey. While the percent of bank rejecting loan applications was a high 30.6 percent, this is down from 35.3 percent recorded last year. Furthermore, almost one-third, or 30.2 percent of bank CEOs, reported no change in lending stemming from weak farm income.

Hiring: The job gauge dipped to 57.8 from March’s 59.6. Rural Mainstreet businesses not linked to agriculture increased hiring for the month at a solid pace.

Confidence: The confidence index, which reflects expectations for the economy six months out, slipped to 45.6 from 47.5 in March indicating a continued pessimistic outlook among bankers. Until agri-cultural commodity prices begin to trend higher, I expect banker’s economic outlook to remain weak

Home and retail sales: Home sales moved higher for the Rural Mainstreet economy for April with a reading of 56.8 from March’s 56.2. The April retail-sales index declined to 40.2 from March’s 41.5. Much like their urban counterparts, Rural Mainstreet retailers are experiencing pullbacks 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) declined to 41.8 from 43.0 in March. The farmland and ranchland-price index plummeted to 29.6 from March’s 49.4. Colorado’s hiring index for April decreased to 55.9 from March’s 56.5.

ILLINOIS

The April RMI for Illinois increased to 41.3 from 40.3 in March. The farmland-price index fell to 29.4 from March’s 30.5. The state’s new-hiring index advanced to 55.1 from last month’s 51.1.

IOWA

The April RMI for Iowa sank to 39.1 from 40.0 in March. Iowa’s farmland-price index for April sank to 28.5 from 30.4 in March. Iowa’s new-hiring index for April climbed to 51.5 from March’s 50.5.

KANSAS

The Kansas RMI for April slumped to 41.0 from March’s 43.4. The state’s farmland-price index sank to 29.3 from 32.0 in March. The

new-hiring index for Kansas declined to 54.7 from 57.2 in March.

MINNESOTA

The April RMI for Minnesota dipped to 45.9 from March’s 46.1. Minnesota’s farmland-price index slumped to 31.2 from 33.4 in March. The new-hiring index for the state dipped to a strong 62.5 from last month’s 62.7.

MISSOURI

The April RMI for Missouri advanced to 62.0 from 56.7 in March. The farmland-price index sank to 37.6 from March’s 42.3. Missouri’s new-hiring index jumped to 88.2 from 61.2 in March.

NEBRASKA

The Nebraska RMI for April rose slightly to a weak 43.9 from 43.3 in March. The state’s farmland-price index fell to 30.4 from March’s 32.0. Nebraska’s new-hiring index expanded to 59.3 from 57.1 in March.

NORTH DAKOTA

The North Dakota RMI for April slumped to 25.3 from March’s 25.4. The farmland-price index slipped to 23.0 from March’s 23.1. North Dakota’s new-hiring index rose to 29.5 from 21.3 in March.

SOUTH DAKOTA

The April RMI for South Dakota fell to 41.9 from March’s 51.3. The farmland-price index slumped to 29.6 from March’s 36.0. South Dakota’s new-hiring index dropped to 56.1 from March’s 73.0.

WYOMING

The April RMI for Wyoming was unchanged from March’s 36.5. The April farmland and ranchland-price index fell to 27.5 from March’s 28.6. Wyoming’s new-hiring index climbed to 47.5 from 43.5 in March.

THE BULLISH NEWS

- The nation’s unemployment fell to 4.4% for April. This is slightly below the Federal Reserve’s rate at which the economy continues to expand without excessive inflation.
- Year over year average hourly earnings for workers rose to 2.5 % for April to \$26.19 per hour.
- The U.S. trade deficit narrowed to \$43.7 billion in March from \$43.8 in February as global demand for U.S. exports climbed.
- The Case-Shiller home price index for the U.S. rose 5.8%, a 32-month high in February.

THE BEARISH NEWS

- The nation’s 1.6 million long-term unemployed, jobless longer 26 weeks, continue to struggle with the current jobless rate above pre-recession levels.
- The year-over-year U.S. consumer price index (CPI) for March rose to 2.5%, down from February, but still pointing to greater inflationary pressures.

WHAT TO WATCH

- **FOMC Meeting on June 14:** The Federal Reserve rate-setting committee meets next on June 14. The market indicates a 60%-70% likelihood of a ¼% funds rate increase.
- **June Jobs Report on June 2:** The Bureau of Labor Statistics will release the nation's job gains for May. A gain over 180,000 will support an interest rate increase from the Fed on June 14."
- **Repatriation of Corporate Earnings (anytime in the next 3-6 months):** The U.S. Congress with the approval of the President will likely reduce the corporate income tax rate on corporate earnings of U.S. companies stuffed off-shore. This action would likely drive the U.S. dollar higher if it is unexpected.

THE OUTLOOK

FROM GOSS:

- I expect **a Federal Reserve rate hike at the next FOMC meeting on June 14; **wages to continue to grow, but at a faster pace approaching 3.3% annualized by the end of quarter 3 of 2017; **annualized inflation, as measured by the CPI to advance for the second half of 2017, but remain below 3.0% (annualized).

OTHER FORECASTS:

- **National Association of Business Economists (NABE):** NABE Panel Reports Improved Profits, Moderating Sales Growth, and Rising Prices; Panelists Anticipate Steady Wage and Employment Growth. The April 2017 NABE Business Conditions Survey report presents the responses of 97 NABE members to a survey on business conditions in their firms or industries conducted between March 21, 2017, and April 6, 2017, and reflects first quarter 2017 results and the near-term outlook. COMMENTS: "The results of the most recent NABE Business Conditions Survey reflect relatively favorable conditions for firms during the first three months of this year," said NABE President Stuart Mackintosh, CBE, executive director, Group of Thirty. "Profit margins improved with strength in prices charged, and sales continued to increase, although at a more moderate pace than the previous quarter. At the same time, materials cost pressures appear to be stabilizing. Panelists also maintain their more positive expectations for economic growth from the prior survey, with two-thirds of respondents still expecting GDP growth above 2% in 2017. On balance, the panel remains largely neutral in response to recent policy developments, including potential changes to the Affordable Care Act," noted Survey Chair Emily Kolinski Morris, CBE, chief economist, Ford Motor Company. "But we continue to see some divergence in responses from panelists representing firms across different sectors in our panel. Although the vast majority of respondents continues to cite no change in hiring or investment decisions due to post-election developments, those from goods-producing firms were the most likely to cite policy-related changes in U.S. hiring and investment

activity."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Venezuela's recent takeover of its GM plant cost the automaker \$100 million, but will cost this government-run economy even more in the long run. This nation is demonstrating clearly how government ownership of the means of production fails to provide its citizens with even a modicum of health, wealth and quality-of-life.

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.economicstrends.blogspot.com

This month's survey results will be released on the third Thursday of the month, May 18.