

## Fair Share of Federal Income Taxes: Federal Government and Fed Actions Fail Low Income

In 2000, workers with incomes greater than \$200,000 earned 33% of the nation's income, but paid 46% of income taxes. In 2012, well after the Bush tax cuts, the same high income group earned 41% of the nation's income, but paid a higher 55% of U.S. income taxes. In 2000, workers with incomes less than \$40,000 earned 14% of the country's income but paid 9% of U.S. income taxes. By 2012, this low income group earned 7% of U.S. income, but paid only 4% of U.S. income taxes. That is, high income workers are paying an increasing share of the nation's income tax burden. Despite placing a larger income tax burden on high income workers, income inequality continues to escalate. University of California at Berkeley economist Emmanuel Saez estimates that between 2009 and 2012, the top 1 percent captured 95 percent of total income growth. What accounts for this? Certainly not income tax rates! Federal Reserve (Fed) and federal government policies since the recession of 2008 have differentially aided high income, high wealth Americans. The Fed's bond buying programs (QE1, QE2 and QE3) pushed up asset prices including stock prices, bond prices, art, and other assets at an unprecedented rate. For example, between December 2008 and March 2015, the S&P 500 stocks increased by 131%. Additionally, the 2008-09 bailouts of AIG, GM, Bear Stearns, Goldman-Sachs, Morgan Stanley, and the Obama Administration's \$830 billion stimulus program mostly stimulated the incomes of the nation's wealthiest. Federal government and Fed market intervention appear to have widened the gap between the high and low income groups. Tackling income inequality with income tax rates has not and will not work. Ernie Goss.

## MAINSTREET RESULTS

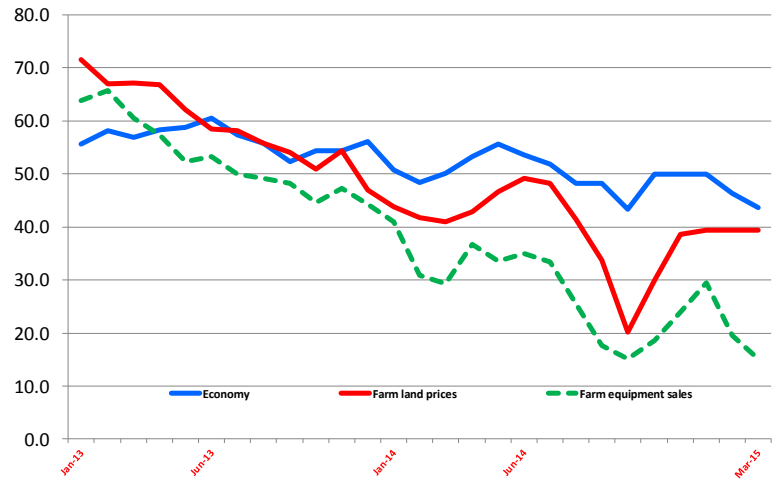
### March Rural Mainstreet Index Negative: Farm Equipment Sales Decline to Record Low

Table 1: The Mainstreet Economy	Mar 2014	Feb 2015	Mar 2015
Area Economic Index	50.1	46.4	43.6
Loan volume	65.5	46.4	64.9
Checking deposits	65.5	57.3	56.4
Certificate of deposits	42.5	41.8	44.7
Farm land prices	40.9	39.4	39.4
Farm equipment area sales	29.3	19.5	15.2
Home sales	51.8	50.9	55.5
Hiring in the area	60.0	56.5	52.2
Retail Business	49.2	43.7	40.4
Economy 6 months from now	47.3	41.5	47.8

#### Survey Results at a Glance:

- The Rural Mainstreet Index remained below growth neutral for March, falling to its lowest level in five years.
- Farmland prices sank for the 16th straight month.
- Agriculture-equipment sales declined to a record low level.
- Almost one-third of bankers say the Federal Reserve should not raise interest rates in 2015.
- Only 7.2 percent of ethanol plants have reduced production due to lower energy prices.

### Rural Mainstreet Economy January '13 – March '15 Creighton University



The Creighton University Rural Mainstreet Index for March slumped from February's weak reading, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, sank to 43.6, its lowest level since February 2010, and was down from last month's 46.4.

"The stronger U.S. dollar is undermining the farm and energy sectors by weakening agricultural exports, crop prices, livestock prices and energy prices. Rural Mainstreet businesses dependent on export, agriculture or energy are experiencing pullbacks in economic activity.

**Farming and ranching:** The farmland and ranchland-price index for March was unchanged from February's weak 39.4. Even though crop prices have stabilized, demand for farmland remains weak pulling agricultural land prices down again. This is the 16th straight month the index has moved below growth neutral. Despite the weakness in farm income, nonfarm investors continue to purchase farmland with the share of outsiders buying farmland rising from 14.4 percent last June, to 17.5 percent this month.

The March farm-equipment sales index plunged to a record low of 15.2 and down from February's already fragile 19.5. The index has been below growth neutral for 20 straight months. With farm income expected to decline for a second straight year, farmers have become very cautious regarding the purchase of agricultural equipment.

**Banking:** The March loan-volume index soared to 64.9 from 46.4 in February. The checking-deposit index dipped to 56.4 from February's 57.3, while the index for certificates of deposit and other savings instruments advanced to 44.7 from February's 41.5. Almost one-third of bankers, or 29.8 percent, say the Federal Reserve should not raise interest rates in 2015. On the other hand, 10.6 percent indicate that interest rates should be increased immediately, while the remaining share of bankers say the Fed should increase interest rates in the second, third or fourth quarter of 2014.

**Hiring:** Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and energy, Rural Mainstreet businesses continue to add workers to their payrolls.

The March hiring index declined to 52.2 from February’s 56.5. We have yet to measure any significant decline in employment for the energy sector in the region for businesses linked to agriculture. I expect that to change in the months ahead as lower energy and agriculture prices work their way through the economy.

This month Creighton’s survey group asked bank CEO’s if ethanol plants had altered production due to lower energy prices. Of the bankers with ethanol production in their area, 85.7 percent indicated no change, while 7.1 percent reported increased production and 7.2 percent reported a reduction in ethanol production.

**Confidence:** The confidence index, which reflects expectations for the economy six months out, expanded to 47.8 from February’s 41.5. The negative trend in farmland prices, agricultural equipment sales, and oil prices have negatively affected the outlook of bank Rural Mainstreet bank CEOs.

**Home and retail sales:** The March home-sales index climbed to 55.5 from February’s 50.9. The March retail-sales index fell to 40.4 from 43.7 in February. Much like urban areas, retail sales are contracting rather than expanding.

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.

## MAIN\$TREET ON YOUR \$TREET

### COLORADO

After rising above growth neutral for 11 straight months, Colorado’s Rural Mainstreet Index (RMI) declined below the 50.0 threshold for the last two months. The RMI slumped to 40.6 from February’s 47.2. The farm-land and ranchland-price index slumped to 35.6 from 60.8 in February. Colorado’s hiring index for March fell to 48.6 from February’s 60.8.

### ILLINOIS

The RMI for Illinois rose to 60.5 from 46.3 in February. The Illinois farmland-price index expanded to 53.2 from 38.7 in February. The new-hiring index dipped to 53.4 from 55.0 in February.

### IOWA

The March RMI for Iowa fell to 43.0 from February’s 46.7. The state’s farmland-price index for March ex-panded to 42.1 from February’s 41.5. Iowa’s new-hiring index for March declined to 53.8 from February’s 57.2.

### KANSAS

The Kansas RMI for March climbed to a weak 46.8 from February’s 45.1. The state’s farmland-price index rose to 57.1 from February’s

37.2. The new-hiring index for Kansas climbed to 65.8 from 53.9 in February.

### MINNESOTA

The March RMI for Minnesota sank to 26.8 from February’s 44.6. Minnesota’s farmland-price index declined to 33.2 from 38.5 in February. The new-hiring index for the state sank to 48.8 from February’s 54.9.

### MISSOURI

The March RMI for Missouri plummeted to 39.4 from 47.5 in February. The farmland-price index plunged to 16.3 from February’s 53.5. Missouri’s new-hiring index decreased to 33.2 from 66.8 in February.

### NEBRASKA

The Nebraska RMI for March sank to 43.3 from 44.4 in February. The state’s farmland-price index ad-vanced to 38.9 from 33.3 in February. Nebraska’s new-hiring index grew to 51.3 from February’s 50.7.

### NORTH DAKOTA

The North Dakota RMI for March declined to 45.4 from February’s 53.7. The farmland-price index fell to 51.3 from 73.7 in February. North Dakota’s new-hiring index sank to 61.2 from February’s 83.0.

### SOUTH DAKOTA

The March RMI for South Dakota declined to 41.7 from February’s 45.1. The farmland-price index for March decreased to 32.1 from last month’s 35.3. South Dakota’s new-hiring index decreased to 45.8 from 52.3 in February.

### WYOMING

The March RMI for Wyoming advanced to a weak 41.9 from last month’s 47.1. The March farmland and ranchland-price index ticked down to 34.1 from February’s 41.7. Wyoming’s new-hiring index sank to 47.4 from February’s 57.4.

## THE BULLISH NEWS

- The consumer price index including food and energy was unchanged for the last 12 months while the core CPI, which excludes food and energy, rose by 1.7% over the year.
- The Case-Shiller home price index appreciated by 4.5% in January over the January 2014 reading.
- The U.S. trade deficit fell for February but for the wrong reasons—both imports and exports declined.

## THE BULLISH NEWS

- Total nonfarm employment increased by a weak 126,000 in March and January and February gains were revised down by 70,000.
- The Creighton and National purchasing management indices (PMIs) fell significantly for March, but both remain above growth neutral.
- U.S. retail sales dropped by 0.6% for February and were up only 1.7% from the February 2014.

## WHAT TO WATCH

- **GDP:** On April 29, the U.S. Bureau of Economic Analysis will release gross domestic product numbers for Q1, 2015. GDP growth below an annualized pace of 1% will be a sharp negative blow to the stock market and a very bullish reading for bond prices. Above 2% will be a “non event.”
- **PMIs:** On May 1, Creighton and the National Institute for Supply Management will release regional and national PMIs for April. Readings below 50.0 will be very bearish economic signals. Readings above March’s tepid indices will be bullish.
- **Wage data:** On Friday May 8, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another healthy monthly gain, above 0.2%, will “seal the deal” for a Federal Reserve rate hike this June.

## THE OUTLOOK

### FROM GOSS:

- I expect the value of the U.S. dollar to soften a bit in the next month as a Fed rate hike begins to look less likely.
- However even with weaker U.S. economic growth, I expect the Fed to raise short term interest rates by ¼% in June of this year.
- The U.S. energy sector to begin losing jobs at a faster pace in the months ahead. Energy companies have delayed the inevitable.

### OTHER FORECASTS:

- National Association of Business Economics (NABE): “NABE’s March 2015 Outlook Survey panel expects a markedly stronger pace of economic growth in 2015 and 2016 than was recorded last year,” says NABE President John Silvia, chief economist of Wells Fargo. “The panelists’ median forecast is for real GDP to increase 3.1% on an average annual basis this year followed by a 2.9% rise in 2016. This compares to a gain of only 2.4% in 2014. Healthier consumer spending, housing investment, and government spending growth are expected to make out-sized contributions to the projected acceleration in overall economic activity. Accordingly, recent labor market strength is expected to continue. The panelists’ median forecast is for net new job creation to average approximately 250,000 per month in 2015 and 216,000 per month next year. The unemployment rate is expected to continue its downward trend over the next several quarters, reaching 5% by the second half of 2016.”

## GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Some in Congress are pushing for a federal sales tax sometimes referred to as a value-added-tax (VAT). This would be a big mistake. Because VATs are embedded in the price of products, they can often rise unnoticed by the consumer, which is why big spenders love them as a vehicle for periodic stealth tax hikes. This is why Nobel

prize winning economist, Milton Friedman, often said that the best taxes were those that taxpayers could feel so they would be difficult to raise. He was right.

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This month’s survey results will be released on the third Thursday of the month, April 16.