

2017 Tax Reform Package: Punishes Economic Success & Educational Achievement

On November 2, House Republicans unleashed their tax reform package. Unfortunately the individual portion continues to focus on income redistribution, rather than income growth. In the end it will accomplish neither. For example, the top individual income tax rate remains at 39.6%. Once state income tax rates and funding for Obama Care are tacked on, the top income earners are paying almost half of their income in income taxes alone.

In 1980, the top 10% of income earners paid 49.3% of total individual income tax collections, while the bottom 50% paid 7.1% of collections. More than three decades later in 2014, the share of income taxes paid by the top 10% soared to 70.9% as the bottom half's share sank to 2.8%. What happened to income inequality and economic growth during that time span? As measured by the Gini coefficient, income inequality climbed by 12%. Importantly annual GDP growth averaged 3.4% between 1980 and 1990, but sank to 1.5% between 2004 and 2014.

Between 1980 and 2014, correlation coefficients, measures of the association between two factors, indicate that as the top 10% of income earners' share of tax collections increased, GDP growth declined, and income inequality rose.

Based on 2016 incomes and the proposed tax law, a married cook with one child would pay \$0 in federal income taxes while a married engineer with one child would pay \$7,093 in individual federal income taxes. If through overtime and/or ingenuity, each earned an additional \$10,000, the engineer's taxes would increase by \$1,200, while the cook would pay \$0 on the added income. The old income tax law discouraged educational attainment; the proposed tax law makes educational achievement even less appealing. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Rises for October: Ten Percent Expect Farm Foreclosures to Pose Greatest Banking Threat

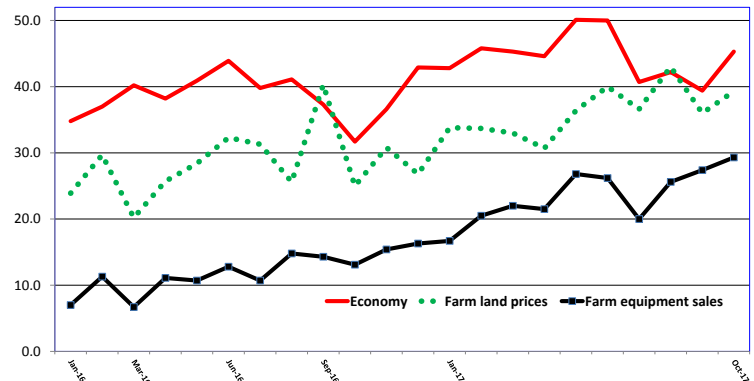
Table 1: The Mainstreet Economy	Oct 2016	Sep 2017	Oct 2017
Area Economic Index	31.8	39.6	45.3
Loan volume	71.6	73.2	67.9
Checking deposits	63.7	51.2	54.8
Certificate of deposits	40.9	46.6	44.1
Farm land prices	25.0	36.0	39.3
Farm equipment area sales	13.1	27.4	29.3
Home sales	50.1	56.0	52.5
Hiring in the area	45.4	55.9	57.3
Retail Business	36.3	41.9	39.3

Survey Results at a Glance:

- The overall index improved from September's reading, but remained below growth neutral.
- For the 47th straight month, average farmland prices declined across the 10-state region.
- For the 50th straight month, the agriculture equipment sales index fell below growth neutral.

- Almost one in 10 bankers expect farm foreclosures to be the greatest challenge to banking operations over the next five years.
- Almost one-half of bankers report that current corn prices are below break-even for cash renting farmers in their area.

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



The Creighton University Rural Mainstreet Index rose from September's reading, but remained below growth neutral, 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, like all indices in the survey, ranges between 0 and 100, increased to 45.3 from 39.6 in September. As a result of weak farm income and low agriculture commodity prices, approximately 9.5 percent of bank CEOs expect farm loan foreclosures to pose the greatest threat to banking operations over the next five years.

Farming and ranching: The farmland and ranchland-price index for October rose to 39.3 from 36.0 in September. This is the 47th straight month the index has fallen below growth neutral 50.0.

Bankers were asked to compare current spot prices for a bushel of corn to break even. Only 2.4 percent of bankers indicated that prices between \$3.50 and \$3.75 were above break even. Approximately 45.2 per-cent reported current spot prices were below break even.

According to Jeffrey Gerhart, president and chairman of the Bank of Newman Grove in Newman Grove, Nebraska, "Break-even prices vary from farmer to farmer. (It) depends upon the debt carried by the farmer. It's all about their cash flow."

However, Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Illinois, said, "Where can I find a spot price for corn of \$3.50 or above today? Try \$3.00 to \$3.20, which is below the break even by all means." The October farm equipment-sales index increased to 29.3 from September's 27.4. This marks the 50th consecutive month the reading has dropped below growth neutral 50.0.

Banking: Borrowing by farmers was strong for October as the loan-volume index fell to a still strong 67.9 from 73.2 in September. The checking-deposit index was 54.8, up from September's 51.2, while the index for certificates of deposit and other savings instruments sank to 44.1 from 46.6 in September.

Rural Mainstreet bankers have been generally supportive

of Federal Reserve rate hikes. Approximately, 64.3 percent anticipate one more 2017 rate increase.

Hiring: The employment gauge climbed to 57.3 from September's 55.9. Rural Mainstreet businesses not linked to agriculture increased hiring for the month, and at a faster pace than in September.

Confidence: The confidence index, which reflects expectations for the economy six months out, increased to a weak 37.0 from 36.1 in September, indicating a continued pessimistic outlook among bankers. Concerns about trade, especially current NAFTA negotiations, and low agriculture commodity prices impaired bankers' economic outlook for the month.

Home and retail sales: The home-sales index moved lower for the Rural Mainstreet economy for October, falling to 52.5 from September's 56.0. The October retail-sales index slumped to 39.3 from 41.9 in September. Much like their urban counterparts, Rural Mainstreet retailers are experiencing significant 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) improved to 42.1 from 39.2 in September. The farmland and ranchland-price index expanded to 49.0 from September's 35.7. Colorado's hiring index for October climbed to 55.9 from September's 54.6.

ILLINOIS

The October RMI for Illinois rose to 45.1 from 42.2 in September. The farmland-price index slumped to 35.1 from 35.9 in September. The state's new-hiring index rose to 56.6 from last month's 55.4. Jim Eckert, president of Anchor State Bank in Anchor, said, "Harvest is well underway here. Corn is yielding only 5-10 percent less than last year, which is much better than expected. Soybeans yields are 10-15 percent lower than last year."

IOWA

The October RMI for Iowa climbed to 45.6 from 39.9 in September. Iowa's farmland-price index for October fell to 36.0 from September's 36.2. Iowa's new-hiring index for October slipped to 56.9 from September's 57.5. James Brown, CEO of Hardin County Savings Bank in Eldora, said, "Yields on crops are somewhat better than expected so far. (There is) still a long way to go in harvest however."

KANSAS

The Kansas RMI for October advanced to 42.2 from September's 36.5. The state's farmland-price index rose to 37.2 from 33.9 in September. The new-hiring index for Kansas increased to 43.6 from September's 42.4.

MINNESOTA

The October RMI for Minnesota advanced to 50.9 from 50.2 in September. Minnesota's farmland-price index climbed to 39.6 from 36.3 in September. The new-hiring index for the state expanded to 59.7 from September's 58.5. Pete Haddeland, CEO of the First National Bank in Mahanomen said, "Harvest has gone well in our area. Land values are holding."

MISSOURI

The October RMI for Missouri slipped to 49.2 from 51.3 in September. The farmland-price index climbed to 40.9 from September's 38.6. Missouri's new-hiring index rose to a very healthy 74.7 from 73.4 in September.

NEBRASKA

The Nebraska RMI for October expanded to 45.9 from 40.2 in September. The state's farmland-price index jumped to 39.7 from last month's 36.4. Nebraska's new-hiring index stood at a strong 60.0, up from 58.8 in September. According to Jeffrey Gerhart, president and chairman of the Bank of Newman Grove in Newman Grove, "Prices and yields will continue to be a concern for those of us involved in agricultural lending. In the meantime we will continue to work with our borrowers to help them get through these tougher times."

NORTH DAKOTA

The North Dakota RMI for October increased to 47.9 from September's 42.2. The state's farmland-price index moved to 41.0 from 37.7 in September. North Dakota's new-hiring index dipped to 66.5 from 67.9 in September.

SOUTH DAKOTA

The October RMI for South Dakota grew to 43.8 from 38.1 in September. The state's farmland-price index expanded to a weak 38.3 from 35.0 in September. South Dakota's new-hiring index improved to 50.9 from September's 49.7.

WYOMING

The October RMI for Wyoming increased to 44.7 from September's 39.0. The October farmland and ranchland-price index jumped to 38.3 from 35.6 in September. Wyoming's new-hiring index advanced to 54.9 from September's 53.7.

THE BULLISH NEWS

- The U.S. average hourly wage for October rose 2.4% from October 2016, indicating little wage inflation-ary pressures.
- U.S. non-farm employment grew by 261,000 in October and the unemployment rate edged down to 4.1%, its lowest level since 2000.
- U.S. inflation, as measured by the consumer price index (CPI) has increased by 2.2% between September 2016 and 2017.

THE BEARISH NEWS

- The U.S. trade deficit rose to \$43.5 billion in September as imports increased faster than export.
- Debt crisis. Last week Venezuelan President Maduro announced that his administration would seek debt restructuring. Immediately, the value of the nation's bonds declined from 70 cents to 40 cents on the dollar.

WHAT TO WATCH

- **Jobs Report on December 8:** The Bureau of Labor Statistics will release its employment report for November. Another strong reading on wages will "seal the deal" on a December 2017 Federal Reserve rate hike.
- **FOMC Meeting on December 13:** The short-term interest rate setting committee will next meet on Dec. 12-13. Expect a ¼% (25 basis) increase (85% likely).
- **Consumer Price Index on December 13:** The Bureau of Labor Statistics will release the inflation gauge for November. An annualized increase above 2.5% will be bullish for stocks prices and bearish for bond prices (rising yields).

THE OUTLOOK

FROM GOSS:

- I expect **two more Federal Reserve rate hikes by the middle of 2018 (75% likely); **a pickup in home prices 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:

- **The Conference Board, Gad Levanon, Chief Economist:** "Labor markets getting even tighter despite slowing employment growth. The impact of the Hurricanes in August and September, and the bounce back in October, makes it difficult to gauge current employment trends, but it is clear that the labor market continues to tighten. The unemployment rate dipped to 4.1 percent, the lowest rate since December 2000. More importantly, the broad measure of labor market slack, U6, which was slower than the unemployment rate to recover, reached 7.9 percent in October, equaling the pre-recession low. The labor force participation rate dropped to 62.7 percent, further suggesting that higher labor force participation is unlikely to be a significant solution to the growing shortage of workers. Employment increased by 261,000 jobs in October after increasing by just 18,000 jobs in September. In the past three months, average job growth was 162,000, suggesting that the gradual slowdown in job growth continues. In a tight labor market, employers are struggling to fill positions and therefore are attempting to meet demand by raising the productivity of their existing workers through increased investment. The employment report today is unlikely to deter the Fed from raising the federal funds rate next

month."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Last week, Tesla officials announced that the company burned through \$1.3 billion in the most recent quarter as it posted its largest quarterly loss ever. Yet investors have driven the price of the company's stock up by 61% over the past year. Tesla continues to milk taxpayers, equity and bond investors.

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