

December 2024 THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs, and chief loan officers

Rural Mainstreet Economy Soars to Highest Level in 15 Months

- The Rural Mainstreet Index climbed to its highest level in 15 months.
- For the sixth time in the past seven months, farmland prices sank.
- On average, bank CEOs expect farmland prices to decline 2.7% over the next 12 months.
- Farm equipment sales dropped for the 16th straight month.
- Approximately 64.3% of bankers recommended that the Federal Reserve make no change to short-term interest rates at its December meeting. The remaining 35.7% advocated a 0.25% reduction.
- According to trade data from the International Trade Association, regional exports of agriculture goods and livestock for 2024 year-to-date climbed to \$8.73 billion from \$8.64 billion from the same period in 2023, for growth of 1.1%.

(Continued next page; summary on final page)



Merry Christmas & Happy Holidays to you, your families and friends from me and my Creighton Team. Welcome to Creighton's December Bank CEO Report covering November survey results. The November overall reading from bank CEOs and bank executives in 10 Rural Mainstreet States rose to its highest level since July 2023. Thank you for your input over this past year. Ernie Goss

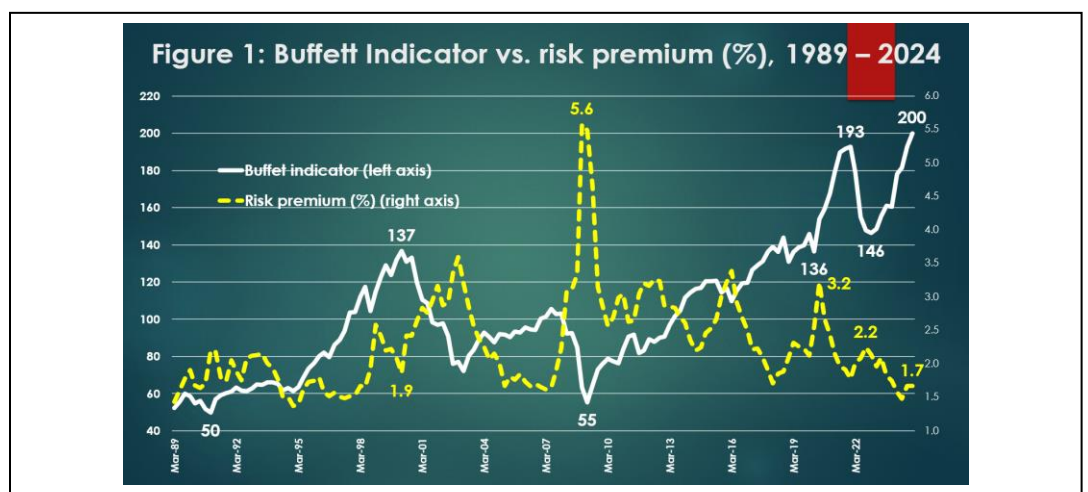
Are Stock Investors Waltzing Past the Graveyard? Buffett Indicator Says Yes!

According to most measures, including the Buffett Indicator, the current U.S. stock market is significantly over-priced. The Buffett Indicator (BI) expresses the value of the U.S. stock market relative (i.e. Wilshire 5000) to the size of the U.S. economy (i.e. GDP). If the stock market value is growing much faster than non-inflation GDP, by historical measures, then it is likely in a bubble, or is over-priced.

Figure 1 profiles the Buffett Indicator (BI) from the first quarter of 1989 until December 2024. As presented, investors have bid the BI to its highest level for the 35-year period. The two most likely explanations advanced by analysts for this over-priced equity markets are: 1) the risk of buying and owning stocks is at an historical low, 2) the future growth rate in profits is at a historical high.

The best statistic characterizing risk is the gap between a risky investment, a corporate bond (BAA) in this case, and a U.S. Treasury bond of the same duration which is also displayed in Figure 1. The narrower the gap, the less risk investors assess the current financial markets. That current gap is 1.7% versus the average for the 1989-2024 period of 2.3%.

As indicated, the risk premium climbed to 2.2% in Q4, 2022 which pushed the BI down to 146. Since then, the risk premium has fallen to 1.7% and the BI has soared to the highest level on record, or 200. A multivariate analysis of the data (not presented here) indicate that a one percentage point increase in the risk premium would drive the BI down by 17 points from its current 200 reading to 183, or an 8.5% decline. If on the other hand, the risk premium rises to its highest reading during the 35-year, the BI would plummet by 68, or a 34% nosedive. Watch for a 2025 Black Swan.



BULLISH NEWS

- The U.S. trade deficit declined \$10 billion October as imports fell more than exports.
- The New York Federal Reserve's estimate for U.S. GDP growth for Q4, 2024 fell to 1.9%. Still OK but getting weaker. The Atlanta Fed's Q4, 2024 is a much higher 3.3%.
- U.S. economy added 227,000 in November. Goldilocks-not too hot, not too cold.
- According to the latest Case-Shiller home price index home prices jumped 3.9% year-over-year, in September. Good for sellers-not buyers, or taxpayers.

.BEARISH NEWS

- U.S. consumer price rate accelerated to 2.7% in November.
- The U.S. wholesale inflation year-over-year for November climbed to 3.0%, and well above the expected 2.7%.
- The 60-day delinquency rate for sub-prime auto loans in July was the highest on record excluding 2009, up 0.1% to 5.98 per cent.

Main\$Street on Your \$Street

Crop yields have been healthy across the region and have offset some of the weakness in farm commodity prices. Likewise, lower fuel costs and lower short-term interest boosted the modest improvement in farm conditions for the month. Even so, more than eight of 10 bankers see lower ag commodity prices as the greatest threat to the farmer.

James Brown, CEO of Hardin County Bank in Eldora, Iowa, said, "Good yields are so far offsetting lower commodity prices. Most ag borrowers are just breaking even unless they did some good marketing earlier."

Other comments from bankers for November:

•Terry Engelken, Vice President of Washington State Bank in Washington, Iowa, reported that "Corn and soybean yields were excellent in our area."

•Jim Eckert, CEO of Anchor State Bank in Anchor, Illinois, said, "Harvest is complete in our area, except for the usual stragglers. Yields were the same or better than 2023, but depressed commodity prices will generate some carryover debt for some operators."

•Larry Winum, CEO of Glenwood State Bank, said, "Now that the republicans have control of the White House and Congress, let's see if they can get serious about a tiered regulatory program for the banking system and a serious discussion and plan to balance the federal budget and reduce the federal debt. It's time to quit talking about it and put a plan in place."

•Casey Regan, CEO of Premier Bank Minnesota, reported that "The regulation relief anticipated under the new Trump Administration contributes to a renewed optimism in the economic environment, particularly in the area of banking. Had the opposite election result occurred, the negative impacts on the financial services industry via legislation through regulation would have been disastrous to the economy."

Farming and ranch land prices: For the sixth time in the past seven months, farmland prices sank. However, the region's farmland index improved to a weak 44.4 from October's six-year low of 38.5. Elevated interest rates and higher input costs, along with below breakeven grain



prices, have significantly reduced farmer ag land demand..

On average, bank CEOs expect farmland prices to decline by 2.7% over the next 12 months.

Jeff Bonnett, CEO of Havana National Bank in Havana, Illinois said, "The pending FARM Act (H.R. 10045 - Farmer Assistance & Revenue Mitigation Act), if approved by Congress, would provide a huge boost to the ag and rural economy in our market area. With per acre estimates of about \$100 for corn and almost \$50 for soybeans, this targeted relief to farmers that suffered due to extremely low commodity prices (below the cost of production) for their 2024 harvest would at least recover part of their operating losses. Our bank is optimistic that this much needed legislation will pass."

According to trade data from the International Trade Association (ITA), regional exports of agriculture goods and livestock for 2024 year-to-date rose to \$8.73 billion from \$8.64 billion from the same period in 2023 for a 1.1% gain.

Farm equipment sales: The farm equipment sales index slumped to 14.6, its lowest level since October 2016, and was down from 18.8 last month. This is the 16th straight month that the index has fallen below growth neutral. High borrowing costs, tighter credit conditions and weak farm commodity prices are having a negative impact on the purchases of farm equipment.

Banking: The November loan volume index declined to a solid 58.9 from a strong 73.1. The checking deposit index fell to 59.3 from 63.7 in October. The index for certificates of deposits (CDs) and other savings instruments sank to 53.7 from 63.5 in October. The Federal Reserve's higher interest rate policies have boosted CD purchases above growth neutral for 24 straight months.

GOSS EGGS

RECENT DUMB Economic Political Actions

Some in Congress Want to Kill the Trump 2017 Tax Cuts

At the end of 2025, Trump's 2017 tax cuts will expire unless Congress and the President agree on an acceptable extension. Calls for the rich to pay their "fair share" may undercut any agreement.

Instead, the latest IRS data argue for lower income workers to pay their "fair share."

Not only do the top 1% provide 40.4% of income tax collections, the top 10% shoulder 72% of the nation's total federal income tax burden. On the other hand, the bottom half of taxpayers cover only 3% of the federal income tax burden.

In a display of Orwellian doublespeak, representatives from high tax states in California, Illinois, New York, and New Jersey, want to repeal the one element that truly aids higher income individuals—the \$10,000 limit on deductions for state & local taxes. This is a deduction that, before that 2017 Trump tax cuts, aided primarily high income taxpayers in high tax states. Progressives want to kill the rest (e.g. those that benefit moderate income individuals).

High tax states should not foist their heavy spending on individuals in low tax states such as Florida, Nevada, Tennessee, Texas, South Dakota and Wyoming (and soon to be Iowa). Ernie Goss.

4 OF 5 GOSS EGGS



Hiring: The new hiring index for November was unchanged from October's 50.0.

Confidence: Rural bankers remain pessimistic about economic growth for their area over the next six months. The November confidence index increased to a weak 46.4, its highest level since March 2022, and up from October's 29.6. Weak agriculture commodity prices and negative farm cash flow, combined with downturns in farm equipment sales over the past several months, continued to place banker confidence below growth neutral.

Home and retail sales: Home sales sank to 42.6 from October's weak 46.3. Likewise, retail sales in the region were very weak with a November reading of 42.0, up from October's even weaker 36.0. High consumer and farmer debt, elevated interest rates and weaker farm income are cutting into retail sales for the Rural Mainstreet Economy.

Below are the state reports:

Colorado: The state's Rural Mainstreet Index (RMI) for November rose to 60.3 from October's 51.6. The farmland and ranchland price index for November expanded to 57.5 from October's 52.3. The state's new hiring index slipped to 65.6 from October's 65.9. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date rose to \$295.1 million from \$127.7 million from the same 2023 period. or a 131.0% gain.

Illinois: The state's November Rural Mainstreet Index (RMI) jumped to 54.3 from 38.1 in October. The farmland price index increased to 42.4 from 38.8 in October. The state's new hiring index climbed to 49.1 from 45.1 in October. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date sank to \$3.2 billion from \$3.3 billion from the same period in 2023 or a 1.8% reduction.

Iowa: November's RMI for the state increased to 49.6 from 37.1 in October. Iowa's farmland price index for November rose to 41.1 from 38.6 in October. Iowa's new hiring index for November fell to 49.3 from 52.4 in October. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date sank to \$1.1 billion from \$1.2 billion from the same period in 2023 or a 2.3% reduction.

Kansas: The Kansas RMI for November climbed to 45.3 from October's 33.4. The state's farmland price index increased to 42.3 from 37.5 in October. The new hiring index for Kansas expanded to 47.9 from 47.6 in October.

According to trade data from the ITA, regional exports of 2024 agriculture goods and livestock year-to-date rose to \$979.4 million from \$935.6 million from the same period in 2023 or a 4.7% gain.

Minnesota: The November RMI for Minnesota climbed to 71.2 from October's 49.8. Minnesota's farmland price index jumped to 50.5 from 42.1. The new hiring index for November dipped to 51.2 from 53.3 in October. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date fell to \$833.0 million from \$919.2 million from the same period in 2023 or a 9.4% reduction.

Missouri: The state's November RMI rose to 57.7 from October's 52.4. The farmland price index for November fell to 53.2 from 57.2 last month. The state's new hiring gauge for November dropped to 56.7 from 71.9 in October. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date sank to \$687.6 million from \$884.9 million from the same period in 2023 or a 22.3% reduction.

Nebraska: The Nebraska Rural Mainstreet Index for November increased to 44.4 from October's 33.5. The state's farmland price index rose to 42.9 from 36.9 in October. Nebraska's November new hiring index increased to 47.9 from 45.8 in October. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date expanded to \$622.4 million from \$475.9 million from the same period in 2023 or a 30.8% gain.

North Dakota: North Dakota's RMI for November rose to 55.3 from October's 39.2. The state's farmland price index increased to 46.0 from 39.3 in October. The state's new hiring index rose to 51.3 from 49.8 in October. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date rose to \$807.7 million from \$716.5 million from the same period in 2023 or a 12.7% gain.

South Dakota: The November RMI expanded to 47.1 from October's 41.8. The state's farmland price index climbed to 43.7 from 39.9 in October. South Dakota's October new hiring index slipped to 48.5 from October's 50.5. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date climbed to \$120.9 million from \$105.8 million from the same period in 2023 or a 14.3% gain.

Wyoming: The November RMI for Wyoming increased to 39.4 from 34.2 in October. The November farmland and ranchland price index improved to 41.5 from October's 33.3. Wyoming's new hiring index increased to 45.8 from 42.1 in October. According to trade data from the ITA, regional exports of agriculture goods and livestock for 2024 year-to-date sank to \$2.5 million from \$4.0 million from the same period in 2023 or a 37.1% reduction.



KEEP AN EYE ON

Keep an eye on the yield on the 10-yr U.S Treasury bond. It has climbed above 4.32% due to concerns over higher inflation.

Consumer price index (CPI). On Jan. 15, the U.S. BLS releases its CPI for December. An upturn will kill Q1, 2024 rate cuts.

Employment Report for January. On Jan. 10th the U.S. BLS releases its job estimates for December. Another strong reading (above 200,000) push the Fed to cease any rate cuts. Jerome Powell’s press conference post the FOMC’s interest rate decision on Dec. 18. Listen for hints on future rate changes.

THE OUTLOOK. National Association of Business Economics-Nov. 2024.

SUMMARY: “NABE panelists’ forecasts for economic growth in 2024 and 2025 are higher than their previous projections,” said **NABE President Emily Kolinski Morris**. “The current forecast calls for inflation-adjusted gross domestic product to increase by 2.7% in 2024, and 2.0% in 2025—up from 2.6% and 1.8% in the September Outlook Survey. In addition, the largest share of respondents—44%—now sees the risks surrounding the outlook as balanced, whereas a majority of respondents in the previous survey thought downside risks were more likely than balanced or upside risks. The median forecast for inflation calls for further cooling, with the consumer price index projected to slow to a 2.3% annual rate by the end of 2025, and the personal consumption expenditure price index coming in at a 2.1% annual rate by then.” Panelists look for the Fed to gradually but consistently lower its target for the federal funds interest rate, cutting the target by a quarter-percentage point in December, followed by a full percentage point in 2025.” <https://tinyurl.com/48bfmdf5>

BANKER READING ROOM

How—and to what extent—will macroeconomic shifts impact US banks in 2025? Deloitte

“Bank executives will be welcoming 2025 with mixed emotions, unsure how the year will unfold and reshape banks’ fortunes. While inflationary pressures have subsided and interest rates are dropping, subpar economic growth, continuing geopolitical shocks, and regulatory uncertainty will likely give bank CEOs anxiety. Adapting to a low-growth, low-rate environment will be a challenge. But many will be happy to close the chapter on 2024, a year that was remarkable in many respects.”

“However, in 2025, economic growth is expected to decelerate and interest rates to drop meaningfully. Deloitte’s latest United States

economic forecast anticipates a soft landing, with US GDP likely to grow at 1.5% in its base-line scenario.” Key Messages:

1. Macroeconomic and geopolitical uncertainties should keep bank executives on their toes.
2. Higher deposit costs will keep net interest income in check.
3. Noninterest income could offer a bright spot for topline growth.
4. Higher compensation expenses and technology investments should keep expenses elevated.
5. Credit quality is expected to normalize but could edge higher in 2025.

<https://tinyurl.com/2udbvasf>

STATISTIC(S) OF THE MONTH
10%

A 10% increase in average tariffs on U.S. imports from China can be fully offset by a Chinese devaluation of the Chinese Yuan against the U.S. dollar.

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For historical data and forecasts, visit our website:

<https://www.creighton.edu/economicoutlook/>

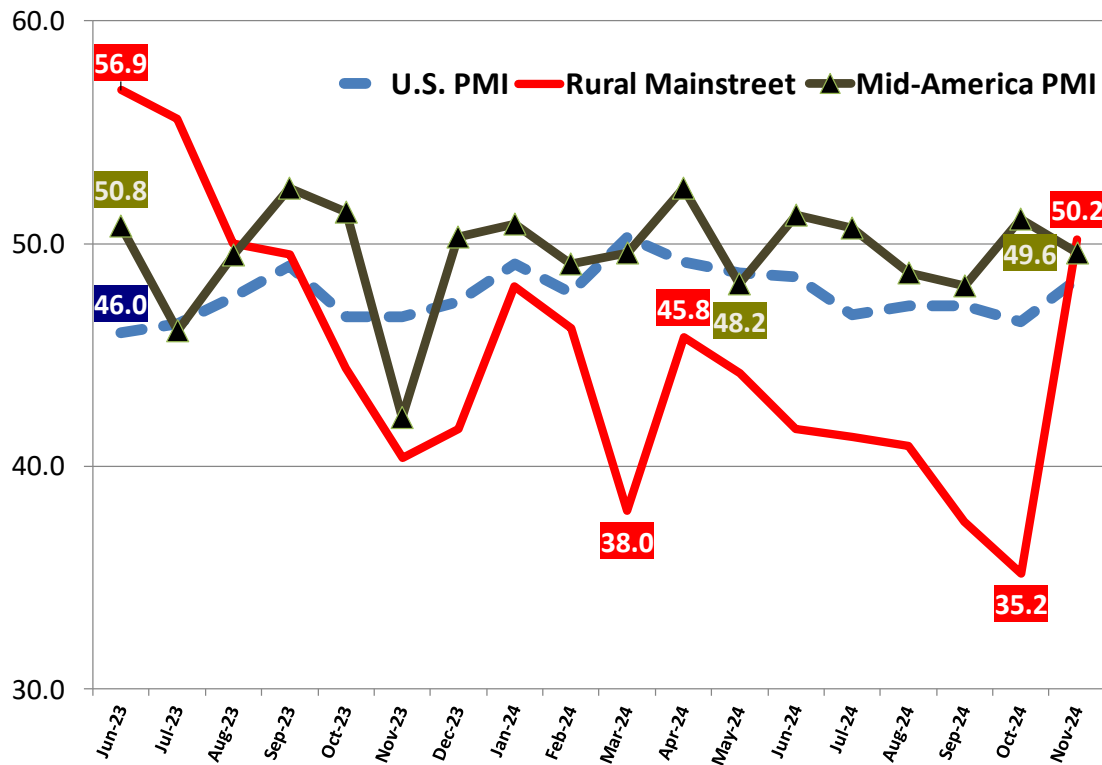
For ongoing commentary on recent economic developments, visit:

Goss monthly interview at: <https://bit.ly/MidAmericaBCINovember2024YouTube>

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

Economic Indicators for U.S., Rural Mainstreet, & Mid-America

Leading Economic Indicators, last 18 months (50.0 = Growth Neutral)



Summary of November Survey

Table 1: Rural Mainstreet Economy Last 2 Months & One Year Ago: (index > 50 indicates expansion)			
	Nov. 2023	Oct. 2024	Nov. 2024
Area Economic Index	40.4	35.2	50.2
Loan Volume	57.9	73.1	58.9
Checking Deposits	56.0	63.7	59.3
Certificates of Deposit and Savings Instruments	58.0	63.5	53.7
Farmland Prices	66.7	38.5	44.4
Farm Equipment Sales	49.5	18.8	14.6
Home Sales	32.0	46.3	42.6
Hiring	49.1	50.0	50.0
Retail Business	44.2	36.0	42.0
Confidence Index (area economy six months out)	21.2	29.6	46.4

Table 2: The Rural Mainstreet Economy, November 2024

	Percentage of Bankers Reporting				
	Leave Rates Unchanged	Reduce Rates by 0.25%			
The Federal Reserve Open Market Committee (FOMC) meets Dec. 17-18. At this meeting the FOMC should:	64.3%	35.7%			
	Percentage of Bankers Reporting				
	Trade Barriers or Tariffs	Rising or High Farm Input Costs	Low or Falling Crop Prices		
Which of the following represents your biggest concern regarding farm profitability in the next 12 months?	7.2%	10.7%	82.1%		
	Percentage of Bankers Reporting				
	Down 10% - 20%	Down 5% - 9%	Down 1% - 4%	Little or No Change	Up 1% - 4%
Compared to this year, what are your expectations for farmland prices in your area in 2025?	3.7%	21.4%	32.1%	35.7%	7.1%