

January  
2024

# THE MAINSTREET ECONOMIC REPORT

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

## Rural Mainstreet Economy Slumps into Negative Territory for Fourth Straight Month

*More Than Half of Bank CEOs Expect 2024 Recession*

### December 2023 Survey Results at a Glance:

- For a fourth straight month, the overall Rural Mainstreet Index sank below growth neutral.
- Farm loan delinquencies fell to one-tenth of one percentage point over the past six months.
- More than half of bank CEOs expect a 2024 recession.
- According to the International Trade Administration, the export of agriculture products from the region declined from \$14.1 billion for the first ten months of 2022 to \$12.0 billion for the same period in 2023 for a 14.7% slump.

(continued next page)



Happy New Year and welcome to Creighton's December Bank CEO Report covering December survey results. The December overall reading from bank CEOs and bank executives in 10 Rural Mainstreet States fell below growth neutral for a fourth straight months with solid farmland price growth, but falling farm equipment sales. Thank you for your contributions over the past year. Ernie

## Recreational Marijuana Legalization: Do Crime Costs Outweigh "Pot" Tax Collections?

Voters in Colorado and Washington approved the use and sale of recreational marijuana in the second half of 2012. In 2014, Oregon joined these two states when 56% of state voters passed Measure 9 which approved the sale of marijuana for recreational use. How has this legalization affected crime rates, and state, and local government spending within each state?

Between 2012 and 2021, according to FBI data, violent crime per 100,000 inhabitants soared between marijuana passage in 2012 to 2022 by 59.4% in Colorado, by 38.3% in Oregon, and by 27.2% in Washington.

In Table 1 is listed the rankings of each state for violent and property crime before and after legalization. As presented, Colorado appears to have suffered the greatest increase in crimes during the period analyzed. In the remainder of this essay, the increase in crime above the median for all states is attributed to marijuana even though no proof is offered for this assumption.

Table 2 compares the three states and the U.S. median in terms of spending on police and fire protection per capita for 2012 and 2022. As presented, each of the three states increased their per capita spending more than the median U.S. state. From this are derived the total 2022 excess spending by state on police and fire protection. State and local tax collections from recreational marijuana sales are inserted in this table. These ad valorem tax rates range from 6% in Missouri to 37% in Washington.

As listed, marijuana tax collections lagged the increase in state and local spending on police and fire protection for Colorado and Oregon. On the other hand, marijuana tax collections for recreational usage in Washington exceed the cost of added police and fire protection.

It is clear that many factors, including marijuana legalization, account for the growth in the crime values listed in Tables 1 and 2. However, this data do question, from a cost/benefit perspective, the legalization of recreational marijuana. Do the public costs outweigh the tax collections from recreational marijuana legalization? Ernie Goss

**Table 1: Violent and property crime rankings for CO, OR, and WA for 2012, 2022**

	Violent crime ranking		Property crime ranking	
	2012	2022	2012	2022
Colorado	29	8	29	3
Oregon	40	28	17	5
Washington	31	27	4	2

Source: FBI Note: Ranking of 51 indicates lowest crime rate in nation; Rates are in incidences per 100,000

**Table 2: State & local spending on fire and crime protection, 2012 and 2022**

	Spending on police/fire protection Per Capita			2022 Excess spending on police/fire protection compared to U.S. (in millions)	2022 state & local tax collections from marijuana (in millions)	Increase in state & local spending on police/fire protection above marijuana taxes (in millions)
	2012	2022	Growth			
Colorado	\$740	\$1,069	44.5%	\$807.4	\$313.0	\$484.4
Oregon	\$811	\$1,237	40.2%	\$508.4	\$170.6	\$337.8
Washington	\$722	\$951	31.6%	\$313.1	\$515.2	-\$202.1
U.S. median	\$611	\$783	28.1%	n.a.	\$2,948.1	n.a.

Sources: U.S. Census Bureau for spending; Tax Foundation for marijuana tax collections (marijuana taxes do not include medical sales)

**BULLISH NEWS**

- The nation added 216,000 jobs and the unemployment rate held at 3.7% for December.
- According to the Case-Shiller home price index for Oct, home prices jumped for the 9<sup>th</sup> month in a row and by 0.2% over September's reading.
- Falling imports reduced the November U.S. trade deficit by 2%.

**BEARISH NEWS**

- There were 591 corporate bankruptcies in 2023, the highest since 2011.
- The U.S. budget deficit hits record high for November and up 26% from Nov. 2022 on higher interest costs.
- Business 2024 pay raises are declining to 4%. This is down from 4.4% for 2023 according to Willis Towers and Watson.
- The U.S. BLS did a record number of revisions to original data releases in 2023.

## Main\$treest on Your \$street

**Overall:** The region's overall reading for December rose to 41.7 from 40.4 in November. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

For a fourth straight month, the overall Rural Mainstreet Index (RMI) sank below growth neutral, according to the December survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Higher interest rates and a credit squeeze are having a significant and negative impact on Rural Mainstreet businesses. Approximately 13.3% of bank CEOs indicated that their local economy was already in a recession while another 43.3% expect a recession in early 2024. Jim Eckert, CEO of Anchor State Bank in Anchor, Ill. said, "Most farm incomes in our area will be down this year, especially due to low corn prices. But most of our farmers are coming off of good years and will be all right."

**Farming and ranching land prices:** The region's farmland price index increased to 67.2 from November's 66.7. Creighton's survey continues to point to solid, but slowing, growth in farmland prices. Approximately, 41.4% of bankers reported that a downturn in farm income was the greatest threat to community banks in 2024.

**Farm equipment sales:** The farm equipment-sales index for December was unchanged from November's weak 49.5. This is the sixth time in the past seven months that the index has fallen below growth neutral. Higher borrowing costs and tighter credit conditions are having a negative impact on the purchases of farm equipment. For a third consecutive month, several bankers voiced concerns over economic losses of pork producers in their area.

Matthew Brown, Vice President of Ag & Commercial Banking with CBI Bank and Trust in Washington, Iowa, stated, "Still seeing significant stress with hog integrators in the area." Echoing the concern for hog operations, Terry Engelken, Vice President of Washington State Bank in Washington, Iowa, reported, "Hog



finishers are still losing money. The lower corn price is improving the situation."

According to the International Trade Administration, the export of agriculture products from the region **declined** from \$14.1 billion for the first ten months of 2022 to \$12.0 billion for the same period in 2023 for a 14.7% **slump**.

**Banking:** The December loan volume index soared to 80.9 from 57.9 in November and from October's 77.7. The checking deposit dropped to a very weak 41.4 from November's 56.0. This is the tenth time in 2023 that the index has fallen below growth neutral. The index for certificates of deposits and other savings instruments expanded to a healthy 65.5 from 58.0 in November.

Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa, reported, "Glad to see the Federal Reserve tap the brakes on raising interest rates. Time to pause and see how the economy reacts to the current rate environment. (It) will be interesting to see if they actually achieve a soft landing."

**Hiring:** The new hiring index for December slipped to 49.0 from November's 49.1. Only 3.6% of bank CEOs reported an increase in employment in their area while 14.1% indicated a pullback in hiring for the month.

**Confidence:** Even though the confidence index climbed to 43.3 from November's record low 21.2, higher interest rates, deposit outflows and a slowing farm economy over the past several months continued to constrain the business confidence.

**Home and retail sales:** Both home sales and retail sales sank below growth neutral for December and November. The December home-sales index increased to 43.3 from 32.0 in November. High mortgage rates and limited supplies are sinking the home sales index below growth neutral in rural areas.



# GOSS EGGS

## RECENT DUMB ECONOMIC MOVES

The Wallstreet Journal recently reported that California Governor Newsom will present his budget for the next fiscal year in the days ahead.

Unfortunately for the state and the rest of the nation, he will call for an annual wealth tax of 1.5% on all fulltime and part-time residents whose net worth exceeds \$1 billion.

The wealth tax would apply to nearly all assets including artworks, farmland, homes, and financial assets held offshore.

Current residents who choose to leave will also take the state's tax liability with them. As the Eagles sang, "You can check out, any time you like, but you can never leave."

Regrettably, what starts in California does not stay in California, nor will the taxable net worth remain at \$1 billion. On Jan. 1, 2026, the taxable net worth falls to \$50 million.

In the years ahead, taxpayers can expect taxable net worth to fall faster than Governor Asa Hutchinson's presidential campaign hopes.

Alarmingly, as the saying goes, "what happens in California does not stay in California."



5 OF 5 GOSS EGGS

The retail-sales index for December increased to a weak 46.6 from November's 44.2. High consumer debt and elevated interest rates are cutting into retail sales in rural areas of the region.

### Below are the state reports:

**Colorado:** Colorado's RMI for December declined to 52.4 from November's solid 58.9. The farmland and ranchland price index for December increased to 74.1 from November's 73.2. The state's new hiring index rose to 59.4 from 58.8 in November. According to the International Trade Administration, the export of agriculture products from Colorado **expanded** from \$102.0 million for the first ten months of 2022 to \$146.0 million for the same period in 2023 for 43.1% **growth**.

**Illinois:** The December RMI for Illinois climbed to 46.5 from November's 44.8. The farmland price index rose to 66.3 from 65.8 in November. The state's new hiring index increased slightly to 49.7 from November's 49.4. According to the International Trade Administration, the export of agriculture products from Illinois **expanded** from \$2.9 billion for the first ten months of 2022 to \$3.6 billion for the same period in 2023 for 23.6% **growth**.

**Iowa:** Iowa's December RMI jumped to 45.5 from 32.4 in November. Iowa's farmland price index for December climbed to 64.0 from November's 62.0. Iowa's new hiring index for November increased to 45.1 from 44.2 in October. According to the International Trade Administration, the export of agriculture products from Iowa **declined** from \$1.8 billion for the first ten months of 2022 to \$1.3 billion for the same period in 2023 for a 29.3% **slump**. James Brown, CEO of Hardin County Savings Bank in Eldora, said, "Almost all farmers have lost working capital with little to no gain in net worth. Lower crop yields and prices are the major cause along with our few customers who have cattle and/or hogs."

**Kansas:** The Kansas RMI for December dipped to 38.3 from November's 39.6. The state's farmland price index slipped to 64.0 from 64.1 in November. The new hiring index for Kansas fell to 46.8 from November's 47.6. According to the International Trade Administration, the export of agriculture products from Kansas **declined** from \$1.9 billion for the first ten months of 2022 to \$1.1 billion for the same period in 2023 for a 43.6% **slump**.

**Minnesota:** The December RMI for Minnesota improved to a weak 36.0 from November's 33.8. Minnesota's farmland price index climbed to 63.3 from 62.4 in November. The

new hiring index for December increased to 46.0 from November's 45.6. According to the International Trade Administration, the export of agriculture products from Minnesota **declined** from \$1.2 billion for the first ten months of 2022 to \$1.0 billion for the same period in 2023 for a 16.1% **slump**.

**Missouri:** The state's December RMI increased to 41.2 from November's regional low 29.8. The farmland price index declined to 59.6 from 61.3 in November. The state's new hiring gauge sank to 41.3 from 44.2 in November. According to the International Trade Administration, the export of agriculture products from Missouri **declined** from \$1.02 billion for the first ten months of 2022 to \$1.01 billion for the same period in 2023 for a 1.4% **slump**.

**Nebraska:** The Nebraska RMI for December slumped to 37.3 from 39.7 in November. The state's farmland price index for December declined to 63.7 from 64.1 in November. Nebraska's December new-hiring index slumped to 46.5 from November's 47.6. According to the International Trade Administration, the export of agriculture products from Nebraska **declined** from \$1.2 billion for the first ten months of 2022 to \$614.0 million for the same period in 2023 for a 47.1% **slump**.

**North Dakota:** North Dakota's RMI for December decreased to 52.3 from 53.6 in November. The state's farmland price index rose to 69.7 from 68.9 in November. The state's new hiring index expanded to 53.8 from November's 53.6. According to the International Trade Administration, the export of agriculture products from North Dakota **expanded** from \$764.0 million for the first ten months of 2022 to \$792.0 million for the same period in 2023 for 3.7% **growth**.

**South Dakota:** The December RMI for South Dakota improved to 46.1 from 44.2 in November. The state's farmland price index climbed to 66.2 from 65.4 in November. South Dakota's December new hiring index increased to 49.5 from 49.2 in November. According to the International Trade Administration, the export of agriculture products from South Dakota **expanded** from \$105.0 million for the first ten months of 2022 to \$112.0 million for the same period in 2023 for 6.7% **growth**.

**Wyoming:** The December RMI for Wyoming increased to 49.9 from November's 47.8. The December farmland and ranchland price index grew to 67.3 from 66.4 in November. Wyoming's new hiring index rose slightly to 50.8 from November's 50.5. According to the International Trade Administration, the export of agriculture products from Wyoming **declined** from \$6.6 million for the first nine months of 2022 to \$4.0 million for the same period in 2023 for a 39.3% **slump**.



## KEEP AN EYE ON

### Yield on 10-year U.S.

Treasury bond. This indicator which is released in almost “real time” has become the most watched financial indicator. Moving outside the range of 3.9% and 4.6% is a warning signal.

• GDP for QIV, 2023. On Jan. 25, the U.S. BEA releases its QIV GDP growth estimate. New York’s Nowcast is estimating 2.54%. Below 1% or above 3.0% will move bonds. Below 1%, bond prices rise and yields fall. Above 3%, bond yields rise and prices increase.

Employment Report for Jan. On Feb. 2, the U.S. BLS releases its estimate for Jan. employment. Another strong reading (above 190,000) will be bad for bond prices as yields begin to rise again dashing investors hopes for Fed rate cuts.

## STATISTIC(S) OF THE MONTH

19.6%

According to Moody’s Analytics, 19.6% of office space in major U.S. cities was unleased for Q4, 2023.

## THE OUTLOOK

**National Association of Business Economics (NABE). SUMMARY:** “The NABE Outlook Survey Panel anticipates stronger U.S. economic growth projections for 2023 than in the October Outlook survey, but panelists expect growth to slow to 1% between the fourth quarter of 2023 and the fourth quarter of 2024,” said **NABE President Ellen Zentner**, chief U.S. economist, Morgan Stanley. “Fewer respondents than in the October 2023 Outlook survey expect a recession within the next 12 months, with more than three in four assigning a probability of 50% or less. While most respondents expect an uptick in the unemployment rate going forward, a majority anticipates that the rate will not exceed 5%. Too much monetary policy tightness and broadening conflicts in Ukraine and the Middle East are cited as the largest downside risks for the U.S. economy.”

“Panelists anticipate further slowing in core inflation—excluding food and energy costs—but doubt it will reach the Federal Reserve Board’s 2% target before year-end 2024,” added **NABE Outlook Survey Chair Mervin Jebaraj**, director, Center for Business and Economic Research at the University of Arkansas. “More than two-thirds expect the target will be reached in 2025 or later. Still, more than 80% of panelists believe interest-rate cuts will begin in 2024, with most expecting cuts to start in the second or third quarter of 2024. Expectations for the 10-year Treasury bond yield for year-end 2023 and 2024 are higher than in the October 2023 survey—at 4.6% and 4.1%, respectively.”

## BANKER READING ROOM

### “Consumer Financial Protection Bureau”

“ICBA is concerned that the CFPB is overstepping their statutory authority in rulemaking and using informal communications, including press statements and social media, to convey expectations and effectively make rules outside of the notice and comment requirements of the Administrative Procedure Act. This practice

creates inconsistent enforcement in addition to other harms.

ICBA supports legislation that would replace single-director governance of the Consumer Financial Protection Bureau (CFPB) with a five-member commission. Prudential banking regulators should actively participate in the consumer protection rule-writing process and the CFPB’s governance.” <http://tinyurl.com/3ayv59zk>

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Goss monthly interview at:

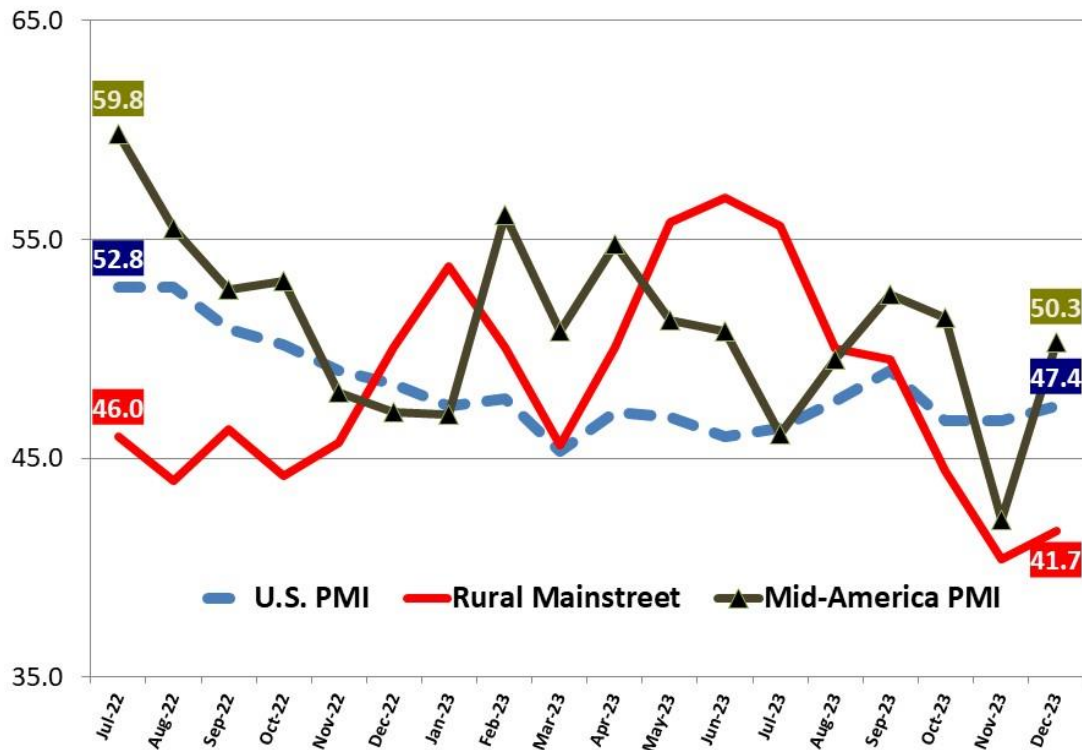
<https://bit.ly/MidAmericaBCIDecember2023YouTube>

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



## Economic Indicators for last 18 months: U.S., Rural Mainstreet & Mid-America

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





	Dec. - 22	Nov.- 23	Dec. - 23
Area Economic Index	50.1	40.4	41.7
Loan Volume	72.1	57.9	80.9
Checking Deposits	48.1	56.0	41.4
Certificates of Deposit and Savings Instruments	51.9	58.0	65.5
Farmland Prices	65.4	66.7	67.2
Farm Equipment Sales	60.4	49.5	49.5
Home Sales	33.3	32.0	43.3
Hiring	49.1	49.1	49.0
Retail Business	45.5	44.2	46.6
Confidence Index (area economy six months out)	29.6	21.2	43.3

	Percentage of Bankers Reporting				
	Down 5% - 10%	Down 1% - 4%	Little or No Change 0%	Moderately Higher 1% - 4%	
Your bank's farm loan delinquencies over the past six months are:	3.6%	3.5%	82.2%	10.7%	
	Percentage of Bankers Reporting				
	Farm Loan Delinquencies	Hiring Talent	Rising Interest Rates	Drought Conditions	Downturn in Farm Income
What will be the biggest economic challenge for agriculturally dependent community banks for the next 12 months:	3.5%	6.9%	20.6%	27.6%	41.4%
	Percentage of Bankers Reporting				
	Already in Recession	Modest Recession	Soft Landing	Hard Landing	No Recession Now or in 2024
Your U.S. recession assessment for 2024	13.3%	43.4%	40.0%	0.0%	3.3%