

March  
2024

# THE MAINSTREET ECONOMIC REPORT

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

## Rural Mainstreet Economy in Negative Territory for Sixth Straight Month

**44% of Bankers Reported Worsening Farm Finances**

### February 2024 Survey Results at a Glance:

- For a sixth straight month, the overall Rural Mainstreet Index sank below growth neutral.
- Almost three-fourths of bank CEOs named low farm commodity prices as the biggest risk for farms in 2024.
- More than four of 10 bankers named falling farm commodity prices as the biggest risk for community banks in 2024.
- Approximately 44% of bankers indicated that the financial positions of farmers in their area had weakened over the past six months.
- Farmland prices expanded for the 51<sup>st</sup> straight month.
- The farm equipment sales index slumped below growth neutral for the eighth time in the past nine months.

(Continued next page)



Welcome to Creighton's March Bank CEO Report covering February survey results. The February overall reading from bank CEOs and bank executives in 10 Rural Mainstreet States fell below growth neutral for a sixth straight months but with solid farmland price growth, and falling farm equipment sales. Ernie Goss

## Sales Taxes Slow Economic Growth Less Than Other Taxes

Consumption or sales taxes, at their simplest, are taxes imposed on spending in the form of retail sales taxes, excise taxes, or value added taxes. Rather than target income, property, or other forms of tax collections, a consumption or sales tax policy upon the purchase of goods and services, allowing consumers a more active role in determining their individual tax burden. But how does shifting tax burdens to consumption taxes impact economic growth?

A 2021 UK study by Nguyen, et al. showed that an **increase** in consumption taxes and an equivalent **reduction** in income taxes had an expansionary effect on GDP, while maintaining revenues.

Table 1 lists 2021-22 growth according to dependence on taxes. As presented, the 25 states with the highest overall tax burden (as a share of GDP) experienced GDP growth of 8.6% compared to the 25 states with the lowest tax burdens which expanded by 10.0%. As presented, only

states with higher sales taxes grew by a higher 9.2% compared to a lower 8.5% growth for lower sales taxes as a share of GDP.

Table 1 descriptive data suggests that states that shifted tax burdens to sales taxes from any other tax would increase higher economic growth.

In a statistical model not presented, but available on request, it was concluded that shifting:

\*all property taxes to sales taxes would increase GDP growth by 0.2%;

\*all individual income taxes to sales taxes would boost GDP growth by 3.9%;

\*all corporate income taxes to sales taxes would add 10.5% to GDP.

While these impacts are supportive of shifting other state & local taxes to sales taxes, these findings may not be representative of other periods of time.

Ernie Goss & Alyssa Gove

Table 1: GDP growth 2021-22 by tax dependence in 2021

	GDP growth	
	Top half of states in terms of specific tax	Bottom half of states in terms of specific tax
All tax burden	8.6%	10.0%
Property taxes	8.7%	9.3%
Sales taxes	9.2%	8.5%
Individual income	8.6%	9.9%
Corporate income	8.6%	10.0%

Source: Census Bureau for tax data; BEA for GDP data.

**BULLISH NEWS**

- The New York Fed estimates Q1, 2024 GDP growth at 2.1% (not great but not bad).
- The U.S. economy added a strong 275,000 jobs in February.
- Gold soared to an all time high of \$2,188 / oz. (this may be signalling economic trouble ahead).

**.BEARISH NEWS**

- U.S. number of unemployed is up 760,000 since Dec. 2022 and the rate jumped to 3.9% in February.
- The Congressional Budget Office (CBO) projects Federal budget deficits of \$20 trillion 2025-34 on top of the current debt of \$34.5 trillion.
- U.S. payroll growth for the year ending in March will likely be revised down by 500,000.
- For a 2<sup>nd</sup> straight month, the Case-Shiller home price index fell.

**Main\$street on Your \$street**

**Overall:** For a sixth straight month, the overall Rural Mainstreet Index sank below growth neutral to 46.2 from 48.1 for January.



Higher interest rates, weaker agriculture commodity prices and a credit squeeze are having a significant and negative impact on Rural Mainstreet businesses and on Rural Mainstreet farmers.

Jeff Bonnett, CEO of Havana National Bank in Havana, Ill., reported that, “Commodity prices that are \$1.50 to \$2.00 per bushel (corn) less than break-even are obviously not sustainable.”

**Farming and ranching land prices:** The region’s farmland price index fell to a still solid 57.7 from January’s 64.0. The farmland price index has remained above growth neutral for 51 consecutive months. Creighton’s survey continues to point to solid, but slowing, growth in farmland prices. Approximately 19.2% of bankers reported that farmland prices expanded from January levels.

Almost three-fourths of bank CEOs named low farm commodity prices as the biggest risk for **farms** in 2024.

According to trade data from the International Trade Association, regional exports of agricultural goods and livestock for 2023 were \$12.1 billion, which was **down** 8.7% from \$13.3 billion in 2022.

Approximately 44% of bankers indicated that the financial positions of farmers in their area had weakened over the past six months.

**Farm equipment sales:** The farm equipment sales index for February increased to a still weak 49.5 from January’s 47.9. This is the eighth time in the past nine months that the index has fallen below growth neutral. Higher borrowing costs, tighter credit

conditions and weaker grain prices are having a negative impact on the purchases of farm equipment.

Jim Eckert, CEO of Anchor State Bank in Anchor, Ill., said, “Our farmers are not projecting very profitable operations in 2024. Although some input costs are down from last year, weak grain prices for the 2024 crop are depressed and expected to remain so.”

**Banking:** The February loan volume index declined to a still strong 66.0 from 71.9 in January. The checking deposit index plummeted to 48.0 from January’s 62.0. The index for certificates of deposits and other savings instruments slipped to a still strong 60.0 from 62.0 in January.

More than four of 10 bankers indicated falling farm commodity prices as the biggest risk for **community banks** in 2024.

**Hiring:** The new hiring index for February sank to 49.0 from January’s growth neutral, 50.0. Approximately 78% of bankers reported no change in hiring from January’s hiring activity.

**Confidence:** Rural bankers remain very pessimistic about economic growth for their area over the next six months. The February confidence index increased to 40.4 from January’s 38.5. Weak and falling agriculture commodity prices and higher interest rates over the past several months continued to constrain banker confidence.

**Home and retail sales:** Both home sales and retail sales sank below growth neutral for the last four months. The February home-sales index slumped to 35.4 from 38.0 in January. Elevated mortgage rates and a limited supply of homes are sinking

# GOSS EGGS

## RECENT DUMB ECONOMIC MOVES

### Bad News: Biden & Trump Agree on Something : Trade Barriers

The two chief rivals for the presidency finally agree on something and that, in of itself, should be a warning to U.S. workers, consumers, and taxpayers.

Both presidential candidates support boosting trade restrictions, tariffs and other economic nonsense.

In 2023, China, the major target of both presidential candidates, exported \$35.6 billion to the U.S. and imported \$12.3 billion from the U.S.

Not only did these exchanges provide low cost products for U.S. consumers, the Chinese used their net trade surplus in dollars to purchase U.S. Treasury bonds resulting in lower interest rates for U.S. borrowers. Security concerns (i.e. Tik Tok) are an important consideration, but should not mean economic Harikari.

### 4 OF 5 GOSS EGGS



the home sales index below growth neutral in rural areas.

The retail-sales index for February fell to 44.0 from 46.0 in January. High consumer debt and elevated interest rates are cutting into retail sales on the Rural Mainstreet Economy.

#### Below are the state reports:

**Colorado:** Colorado's RMI for February declined to 70.0 from January's 73.7. The farmland and ranchland price index for February dropped to 63.3 from January's 69.7. The state's new hiring index declined to 56.6 from 57.5 in January. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$224 million, **up** 90.1% from \$118 million in 2022.

**Illinois:** The February RMI for Illinois sank to 45.6 from January's 50.0. The farmland price index declined to 56.3 from 63.0 in January. The state's new hiring index dipped to 48.1 from January's 49.1. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$4.5 billion, **up** 14.5% from \$4.0 billion in 2022.

**Iowa:** February's RMI for the state decreased to 38.8 from 44.3 in January. Iowa's farmland price index for February declined to 54.4 from January's 61.4. Iowa's new hiring index for February increased to 45.7 from 45.1 in January. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$1.5 billion, **down** 26.5% from \$2.1 billion in 2022.

**Kansas:** The Kansas RMI for February sank to 37.9 from January's 41.9. The state's farmland price index fell to 54.1 from 60.7 in January. The new hiring index for Kansas dipped to 45.4 from 46.3 in January. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$1.4 billion, **down** 36.6% from \$2.1 billion in 2022.

**Minnesota:** The February RMI for Minnesota declined to 42.9 from 44.1 in January. Minnesota's farmland price index decreased to 55.6 from 61.3 in January. The new hiring index for February increased to

47.2 from 47.1 in January. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$1.2 billion, **down** 11.4% from \$1.4 billion in 2022.

**Missouri:** The state's February RMI increased to 37.3 from January's regional low of 31.6. The farmland price index declined to 54.0 from 57.7 in January. The state's new hiring gauge rose to 45.2 from 42.7 in January. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$1.23 billion, **up** 1.65% from \$1.21 billion in 2022.

**Nebraska:** The Nebraska RMI for February slumped to 34.4 from 39.5 in January. The state's farmland price index for February declined to 53.1 from 60.0 in January. Nebraska's February new-hiring index slumped to 44.2 from 45.5 in January. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$0.87 billion, **down** 35.5% from \$1.35 billion in 2022.

**North Dakota:** North Dakota's RMI for February dipped to 63.5 from 64.3 in Jan. The state's farmland price index declined to 61.4 from 67.0 in Jan. The state's new hiring index expanded to 54.4 from January's 54.2. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$986 million, **up** 10.7% from \$891 million in 2022.

**South Dakota:** The Feb. RMI for the state improved to 50.9 from 50.5 in January. The state's farmland price index dropped to 57.8 from 63.1 in Jan. South Dakota's Feb. new hiring index increased to 49.9 from 49.3 in January. According to trade data from the International Trade Assoc., exports of agriculture goods and livestock for 2023 were \$135 million, **up** 18.9% from \$113 million in 2022.

**Wyoming:** The February RMI for Wyoming increased to 58.0 from January's 56.9. The February farmland and ranchland price index sank to 59.8 from 64.9 in January. Wyoming's new hiring index rose slightly to 52.5 from 51.6 in January. According to trade data from the International Trade Association, exports of agriculture goods and livestock for 2023 were \$5 million, **down** 38.5% from \$9 million in 2022.

Tables 1 and 2 (page 6) summarize the survey findings.



## 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.

**Consumer price index (CPI).** On April 10<sup>th</sup> the U.S. BLS releases its CPI for March. Another monthly gain above 0.3% will push a Fed rate cut to the second half of 2024.

**Employment Report for March.** On April 5, the U.S. BLS releases its estimate for March unemployment. A rate above 4.0% would shake equity markets and boost bond prices.

## THE OUTLOOK

**National Association of Business Economics (NABE). Feb. 2024.** “Only a quarter of NABE respondents believes a recession will occur in 2024,” said Ellen Zentner, NABE President, chief U.S. economist and managing director, Morgan Stanley. “As for the most likely geopolitical risks, NABE respondents express the greatest concerns about the Middle East conflict driving up oil prices or disrupting supply chains, a stagnant Chinese economy, and instability around U.S. elections.” “Panelists are more optimistic about the outlook for the domestic economy,” added NABE Policy Survey Chair Sam Khater, chief economist, Freddie Mac, “but they have increasing concerns on the balance of risks around monetary policy that is ‘too restrictive’ versus a fiscal policy that is ‘too stimulative’”.

“Panelists view promoting medium-to-long-term growth and reducing the deficit and debt as the two most important objectives of fiscal policy, cited by 45% and 42% of respondents, respectively. Addressing income inequality is the third most-common response, cited by 7% of panelists.”

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

## BANKER READING ROOM

### “How CRE Loans Threaten New York Community Banks and Other Regionals in 2023”

Karl Marx once said, “History repeats itself: the first time as tragedy, the second time as farce.” “Marx’s assessment of history’s cyclical nature feels strangely appropriate for describing the state of the nation’s regional banking system in early 2024. Eleven months after the demise of

Silicon Valley Bank precipitated several of the largest commercial bank failures in U.S. history, another banking crisis appears to have been narrowly averted earlier this month — but with zero indication that the regional banking system as a whole remains strong enough to withstand a slowly unfolding generational shift around CRE asset values.”

<https://tinyurl.com/3v5wy62f>

## STATISTIC(S) OF THE MONTH

**-881,000**

U.S. Dept. of Labor reported that over the past 12 months, the number of native born Americans with jobs fell by 881,000 while the number of foreign born Americans working expanded by 1,500,000.

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For historical data and forecasts, visit our website:

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Goss monthly interview at:

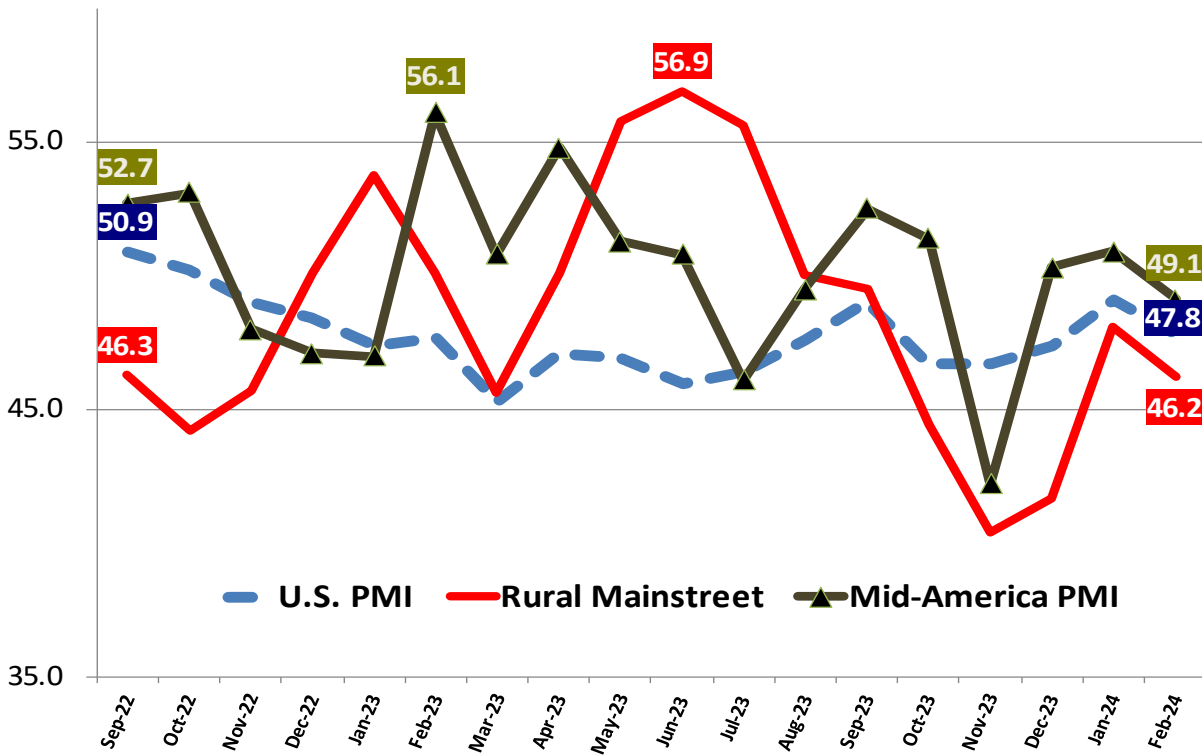
<https://bit.ly/MidAmericaBCIFebruary2024YouTube>

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)



	Feb. 2023	Jan. 2024	Feb. 2024
Area Economic Index	50.1	48.1	46.2
Loan Volume	48.1	71.9	66.0
Checking Deposits	38.5	62.0	48.0
Certificates of Deposit and Savings Instruments	57.7	62.0	60.0
Farmland Prices	63.5	64.0	57.7
Farm Equipment Sales	52.1	47.9	49.5
Home Sales	37.0	38.0	35.4
Hiring	48.1	50.0	49.0
Retail Business	50.0	46.0	44.0
Confidence Index (area economy six months out)	44.4	38.5	40.4

**Table 2: The Rural Mainstreet Economy, February 2024**

	Percentage of Bankers Reporting				
	Lack of Farm Bill	U.S. Global Recession	Higher Input Costs	Low Farm Commodity Prices	
Which of the following is the greatest threat to farm operations for the next 12 months:	3.9%	11.4%	11.6%	73.1%	
	Percentage of Bankers Reporting				
	Significantly Weakened	Weakened	Little or No Change	Improved	Improved Significantly
Over the last six months, what has been the change in farmer financial positions in your area:	0.0%	44.0%	48.0%	8.0%	0.0%
	Percentage of Bankers Reporting				
	Farm Loan Defaults	Low Loan Demand	Farm Credit Competition	Rising Regulatory Costs	Falling Farm Commodity Prices
Which of the following represents the greatest threat to regional banking operations over the next 12 months:	7.7%	15.3%	15.6%	19.2%	42.3%