

May
2024

THE MAINSTREET ECONOMIC REPORT

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

Rural Mainstreet Economy in Negative Territory Again
Farm Loans Soared to Record Level

April 2024 Survey Results at a Glance:

>For an eighth straight month, the overall Rural Mainstreet Index sank below growth neutral.

>Only 0.9% of bankers reported higher farm delinquency rates over the past six months.

>For the 53rd straight month, farmland prices expanded.

>The farm equipment sales index slumped below growth neutral for the 10th time in the past 11 months.

>Approximately half of bank CEOs reported that ethanol production was very important to their local economy.

>According to trade data from the International Trade Association, regional exports of agriculture goods and livestock for 2024 year-to-date were down 7.2% from the same period in 2023.

(Continued next page; summary on final page)



Welcome to Creighton's May Bank CEO Report covering April survey results. The April overall reading from bank CEOs and bank executives in 10 Rural Mainstreet States fell below growth neutral for an 8th straight month, but with solid farmland price growth, and falling farm equipment sales. Ernie Goss

Federal Spending Dominates While the Federal Reserve Accommodates

Approximately 95% of economists, including yours truly, expected a recession in either 2023, or the first half of 2024. So, what went wrong with our forecasts, or right with the economy. **First, federal**

spending domination: Post-pandemic, federal spending expanded at a pace not matched outside of wars and recessions.

Second, Federal Reserve (FED) accommodation: During federal fiscal domination, the FED abetted the spending by purchasing debt (bonds) issued by the U.S. Treasury, which generated a rocketing money supply.

Federal Spending Domination- As presented in Figure 1, federal government spending expanded at a compounded annual growth rate (CAGR) of; 5.1% between Q1, 2017 and the beginning of the pandemic; 10.3% between Q1, 2020

and Q1, 2022, and; 5.4% between Q1, 2022 and Q1, 2024. To enable this spending, as presented, the U.S. federal debt soared by a CAGR of 10.6% from the beginning of the pandemic to Q1, 2024. But how did the Fed accommodate this spending and debt growth?

FED Accommodation-As presented in Figure 2, the Fed spiked the U.S. money supply by a CAGR of 15.3% between the beginning of the pandemic to the first quarter of 2024. The rapid expansion was accomplished by the FED buying U.S. debt (Treasury bonds) and U.S. government agency backed securities by a CAGR of 43.9% during this same time-period. Termed Quantitative Easing (QE), this is sometimes referred to as monetizing the debt, or in today's parlance, Modern Monetary Theory (MMT)—the hypothesis that the federal government can overspend in perpetuity as long as the FED stands ready as a buyer of last resort for U.S. Treasury bonds (debt). Ernie Goss.

Figure 1: Federal debt & spending, 2017-24

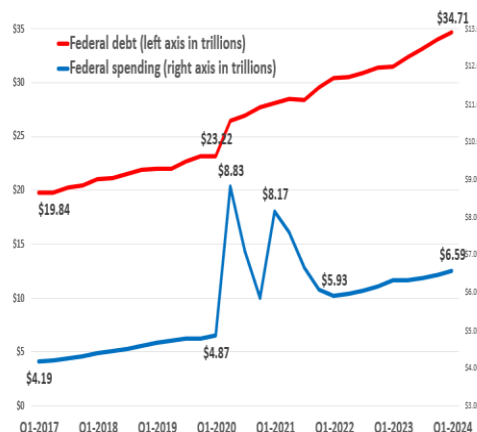
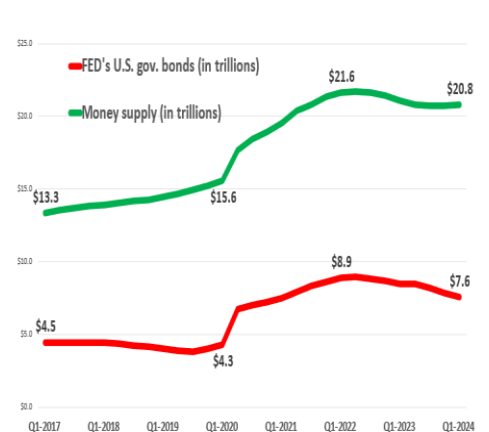


Figure 2: Fed bond holdings & money supply, 2017-24



BULLISH NEWS

- The New York Fed estimates Q2, 2024 GDP growth at 2.3% (not great, but not bad).
- The U.S. economy added a strong 175,000 jobs in April and the unemployment rate rose to 3.9%.
- According to the Case-Shiller home price index February home prices jumped 6.4% year over year, the fastest pace since November 2022.

BEARISH NEWS

- Between March 2023 and March 2024, the number of U.S. new hires fell by 455,000.
- The Congressional Budget Office (CBO) projects Federal budget deficits of \$20 trillion 2025-34 on top of the current debt of \$34.5 trillion.
- The average U.S. wage rate expanded by 3.5% over the past 12 months, or approximately equal to the growth in consumer prices.

Main\$street on Your \$street

Overall: . The region's overall reading for April increased to 45.8 from 38.0 in March, or its lowest level since June 2020. The index ranges between 0 and 100, with 50.0 representing growth neutral.

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

Higher interest rates, weaker agriculture commodity prices and higher grain storage costs pushed the overall reading below growth neutral for the eighth straight month.

Farming and ranching land prices: The region's farmland price index rose to a solid 56.5 from March's 56.0. The farmland price index has remained above growth neutral for 53 consecutive months. Creighton's survey continues to point to solid, but slowing, growth in farmland prices for 2024. Approximately 17.4% of bankers reported that farmland prices expanded from March levels.

Even with weaker farm conditions, only approximately 0.9% of bankers reported an upturn in farm loan delinquencies over the past six months. This is slightly below last month's 1.0% when the same question was asked.

Approximately half of bank CEOs reported that ethanol production was very important to their local economy.

Terry Engelken, past president of Washington State Bank in Washington, Iowa, reported that, "We have a biodiesel plant and that does not need a pipeline (to transport CO2). There is a new technology that converts the CO2 to methanol and thus would end the need for the pipelines."

According to trade data from the International Trade Association (ITA), regional exports of agriculture goods and livestock for 2024 year-to-date were **down** 7.2% from the same period in 2023.



Farm equipment sales: The farm equipment sales index for April improved to a weak 47.7 from March's 30.4, which was the lowest reading since May 2020. This is the 10th time in the past 11 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.

Banking: The April loan volume index soared to a strong and record high 85.4 from 79.2 in March. The checking deposit index sank to 52.2 from March's 62.5. The index for certificates of deposits and other savings instruments slipped to a still strong 71.7 from 72.9 in March.

Jeff Bonnett, CEO of Havana National Bank in Havana, Ill., reported that, "A hot topic around the table lately has been the current administration's proposed plans to further cancel student loan debt to the tune of \$30 million. Strictly from a business standpoint, hasn't the Supreme Court weighed in on this before and ruled that by contractual law, these loans cannot arbitrarily be forgiven?"

James Brown, CEO of Hardin County State Bank in Eldora, Iowa, said, "Farm operating lines of credit will increase this year due to the loss of working capital on most financial statements for 2023. There is still a reasonable amount of working capital on most balance sheets, but cash flows show breakeven levels at current prices with a normal crop year."

Hiring: The new hiring index for April climbed to 56.8 from March's 52.2. Approximately 13.6% of bankers reported an increase in hiring over March levels. Over the past 12 months, U.S. Bureau of Labor Statistics data indicate that the regional Rural Mainstreet

GOSS EGGS

RECENT DUMB ECONOMIC MOVES

Freddie at It Again!

As Yogi Berra would say, "It's Déjà vu all over again." Apparently Government Supported Enterprises (GSEs), Freddie Mac and Fannie Mae, learned nothing from their mortgage backed loan failures in 2008-11 which inflicted U.S. taxpayers with total combined losses of \$266 and required a \$187.5 billion bailout from the U.S. Treasury.

Now according to the Wallstreet Journal Editorial Board, Freddie Mac wants to guarantee second mortgages on homes on which owners have ultra-low first mortgage interest rates, lots of home equity and wish to tap into this equity to pay off current high interest auto and credit card balances. That is, in addition to \$7.5 trillion of taxpayer backing at risk the GSEs wants to get back into your wallet.

A reduction in equity would once again subject the taxpayer to massive losses from a downturn in home prices and climbing interest rates. The GSEs can implement the plan within 60 days unless the FHFA (Federal Housing Finance Authority) vetoes it.

There is the temptation to see politics behind this move since it would significantly boost consumer spending as the second mortgage refinancing finds it way onto the street. Not bad for incumbent politicians running for office this November.



5 OF 5 GOSS EGGS

Economy boosted jobs by 2.6%, compared to 0.9% for urban areas of the same states.

Confidence: Rural bankers remain very pessimistic about economic growth for their area over the next six months. The April confidence index increased to 37.5 from March's 36.0. Weak and falling agriculture commodity prices, farm exports 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 six months. The April home-sales index slumped to a very weak 34.8 from 41.7 in March. Elevated mortgage rates and a limited supply of homes are sinking the home sales index below growth neutral in rural areas.

April retail-sales rose slightly to 41.3 from March's 39.6. High consumer debt, elevated interest rates and weaker farm income are cutting into retail sales for the RMI Economy.

Below are the state reports:

Colorado: The state's RMI for April improved to 74.2 from March's 68.3. The farmland and ranchland price index for April climbed to 63.4 from March's 62.9. The state's new hiring index rose to 65.2 from 61.0 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **up** 99.5% from the same period in 2023.

Illinois: The state's April RMI rose to 38.0 from March's 30.7. The farmland price index increased slightly to 53.1 from 52.3 in March. The state's new hiring index jumped to 52.6 from 47.9 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **down** 20.7% from the same period in 2023.

Iowa: April's RMI for the state increased to 36.7 from 34.5. Iowa's farmland price index for April improved to 52.1 from 51.4 in March. Iowa's new hiring index for April climbed to 52.1 from 46.8 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **up** 16.8% from the same 2023 period.

Kansas: The Kansas RMI for April rose to 36.0 from March's 30.2. The state's farmland price index climbed to 52.6 from 52.1 in March. The new hiring index for Kansas increased to 51.9 from 47.7 in March.

According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **up** 6.7% from the same period in 2023.

Minnesota: The April RMI for Minnesota rose to 48.1 from 42.2 in March. Minnesota's farmland price index declined to 54.2 from 55.5 in March. The new hiring index for April improved to 54.2 from 51.9 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **down** 29.5% from the same period in 2023.

Missouri: The state's April RMI soared to 75.8 from March's 51.7. The farmland price index climbed to 63.9 from 58.2 in March. The state's new hiring gauge jumped to 65.8 from 55.2 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **down** 13.4% from the same period in 2023.

Nebraska: The state's RMI for April rose to 42.7 from 38.0 in March. The state's farmland price index for April climbed to 54.5 from 54.3 in March. Nebraska's April new-hiring index increased to 54.2 from 50.4 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **up** 27.3% from the same period in 2023.

North Dakota: North Dakota's RMI for April expanded to 42.3 from 38.9 in March. The state's farmland price index declined to 54.1 from 54.6 in March. The state's new hiring index increased to 54.1 from 50.7 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **up** 3.0% from the same period in 2023.

South Dakota: The April RMI for South Dakota climbed to 49.6 from March's 43.0. The state's farmland price index rose to 56.5 from 55.7 in March. South Dakota's April new hiring index increased to 56.6 from 52.2 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were **down** 4.3% from the same period in 2023.

Wyoming: The April RMI for Wyoming increased to 41.3 from 38.9 in March. The April farmland and ranchland price index sank to 54.1 from 64.5 in March. Wyoming's new hiring index improved to 53.7 from 50.6 in March. According to trade data from the ITA, exports of agriculture goods and livestock for 2024 year-to-date were unchanged from the same period in 2023.

Tables 1 and 2 on the final page 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 4.7% is a warning signal.

Consumer price index (CPI). On May 15th the U.S. BLS releases its CPI for April. Another monthly gain above 0.3% will push a Fed rate cut about a 2024 rate cut.

Employment Report for March. On June 7th, the U.S. BLS releases its estimate for April unemployment. A rate above 4.0% would shake equity markets and boost bond prices and could push the Fed to cut rates.

THE OUTLOOK

National Association of Business Economics (NABE) April 2024. NABE Panelists Report More Widespread Sales and Profit Margin Increases, But Less Optimism Regarding Growth in Next Three Months. COMMENTS: “The April 2024 Business Conditions Survey results suggest a still-strong business environment, with more respondents than in the January survey reporting rising sales and profit margins in the previous three months,” said NABE President Ellen Zentner, chief U.S. economist, Morgan Stanley. “However, fewer panelists than in January expect their firms’ sales or profit margins to increase in the next three months.”

“The results also suggest that inflation is still with us, but may be easing,” added NABE Business Conditions Survey Chair Carlos Herrera, chief economist, Coca-Cola North America. “Almost two-thirds of panelists expect prices charged to remain unchanged in the next three months.” HIGHLIGHTS Compared to the results from the January survey, more panelists are reporting rising sales and fewer are reporting falling sales in the past three months. The Net Rising Index (NRI) for sales—the percentage of panelists reporting rising sales minus the percentage reporting falling sales—rose to 49 in April. This is up from 37 in the January survey, and marks the highest reading since the April 2022 survey conduct. <https://tinyurl.com/3d94jy8t>

BANKER READING ROOM

“ICBA’s Position on AI,”

Positions: *Banks, as early adopters, have effectively integrated AI and machine learning into their operations, prioritizing safety and soundness. *ICBA holds that banking regulators currently possess the necessary tools to oversee AI usage in community banks.*ICBA believes that regulations that currently apply to the banking sector should be extended to other industries to

provide similar protections to consumer data and privacy. *ICBA opposes laws, regulations or guidance that could lead to the commoditization of lending and other services and products offered by community banks. *ICBA opposes excessively prescriptive regulations from the CFPB that could potentially impede the use of AI in developing more equitable lending models. <https://tinyurl.com/mv9jncc8>

STATISTIC(S) OF THE MONTH

12.5 years

The average age of cars and light trucks on American roads rose to a record high of 12.5 years in 2023 (a 2.1 year expansion since 2015 and 3.7 year increase since 2003). Higher interest rates, inflation, and supply constraints contributed.

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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:

<https://www.linkedin.com/in/ernie-goss-6a284732/>

Goss monthly interview at:

<https://bit.ly/MidAmericaBCIApril2024YouTube>

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)

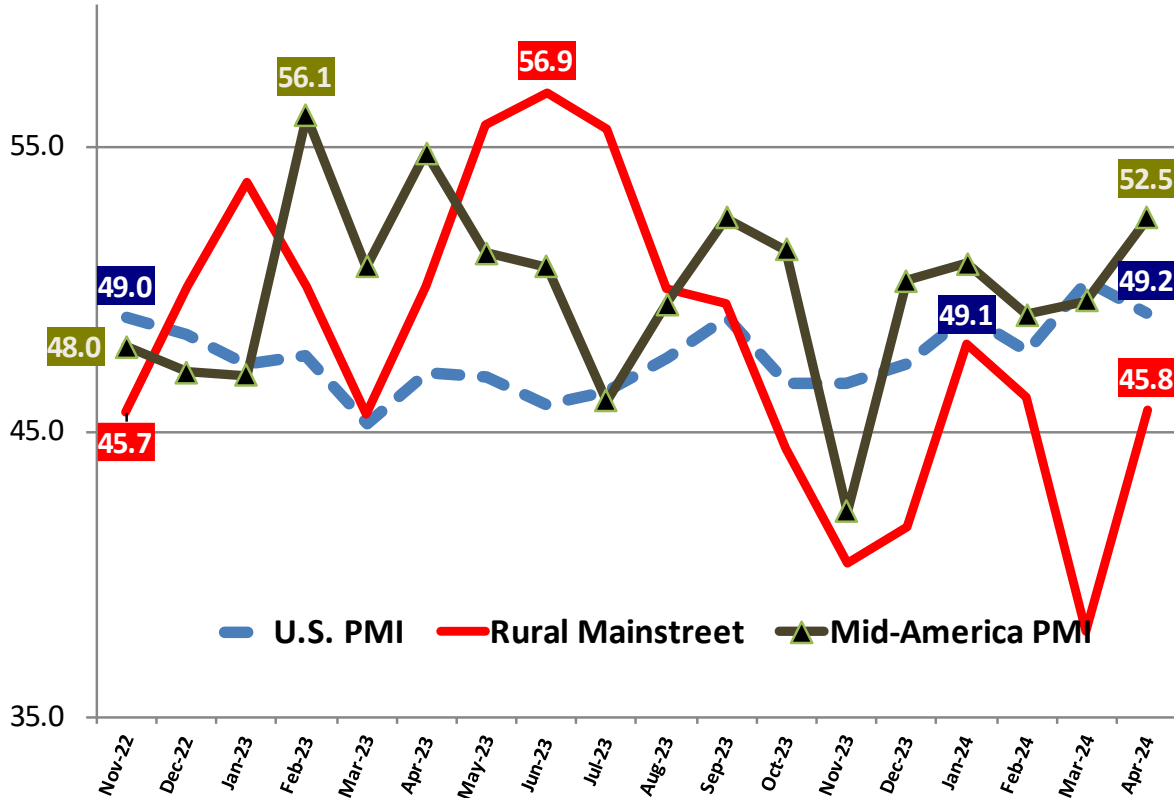


Table 1: Rural Mainstreet Economy Last 2 Months & One Year Ago: (index > 50 indicates expansion)

	April 2023	March 2024	April 2024
Area Economic Index	50.1	38.0	45.8
Loan Volume	62.5	79.2	85.4
Checking Deposits	25.0	62.5	52.2
Certificates of Deposit and Savings Instruments	74.0	72.9	71.7
Farmland Prices	64.6	56.0	56.5
Farm Equipment Sales	54.3	30.4	47.7
Home Sales	44.0	41.7	34.8
Hiring	54.2	52.2	56.8
Retail Business	41.7	39.6	41.3
Confidence Index (area economy six months out)	38.0	36.0	37.5

Table 2: The Rural Mainstreet Economy, April 2024

	Percentage of Bankers Reporting				
	No ethanol plant in area	Not that important	Important	Very important	The most important industry
How important are ethanol plants to your local economy:	4.0%	8.3%	37.5%	45.8%	4.4%
	Percentage of Bankers Reporting				
	0.0% - 0.9%	1% - 4%	5% - 10%		
Farm loan delinquency rates over the past six months are:	87.0%	8.7%	4.3%		
	Percentage of Bankers Reporting				
	No opinion	Should be transported via rail or truck	Yes with adequate landowner compensation	Absolutely not	
Do you as a banker support captured CO2 from ethanol plants being transported via pipelines crossing property in your area?	25.0%	4.2%	54.2%	16.7%	