

January 2025 THE MAINSTREET ECONOMIC REPORT

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

Rural Mainstreet Economy Plummets as Trump Bump Fades: Farm Loan Delinquencies Steady & Low

December Summary:

- We at Creighton University, and bank executives in our survey issue this release in recognition and appreciation of Mr. William "Bill" McQuillan, who recently passed. Bill was a co-creator of this survey and former Chair of the Independent Bankers of America. We express our heartfelt condolences to Bill's family and friends.
- For the eleventh time in 2024, the Rural Mainstreet Index dropped below growth neutral.
- For the seventh time in the past eight months, farmland prices sank.
- Farm equipment sales dropped for the 17th straight month.
- On average farm loan delinquency rates rose by only 1.2% over the past six months.
- Approximately one in five bank CEOs expect a recession in 2025.
- According to trade data from the International Trade Association (ITA), regional exports of agriculture goods and livestock for 2024 year-to-date rose to \$9.98 billion from \$9.71 billion from the same period in 2023 for a 2.8% gain.

(Continued next page; summary on final page)



Happy New Year! Welcome to Creighton's January Bank CEO Report covering December 2025 survey results. The overall December reading from bank CEOs and bank executives in 10 Rural Mainstreet States dropped back into a range indicating that the Rural Mainstreet economy continues to struggle with falling farmland prices and ag equipment sales. Thank you for your input over this past year. Ernie Goss

Stock Investors Chant Buy Low and Sell High: Except for Stock Buybacks

Economic theory dictates that buyers of a product or service purchase less of that product or service as the price rises. However, for businesses listed on U.S. stock exchanges, company actions clash with economic theory and with rational economic actions.

The conventional pricing methodology for a stock is the stock price divided by the annual earnings of the stock, referred to as the price-to-earnings (P/E) ratio. Thus, the P/E is the price investors pay for each dollar of earnings and as the P/E rises, investors and managers should buy fewer shares of their company stock in transactions called buybacks.

For most of the 20th century, the SEC deemed stock buybacks as illegal because they were thought to be a form of company stock price manipulation. But since 1982, they have been essentially legalized and greatly expanded. But in 2022, as part of the paradoxically titled *Inflation Reduction Act*, a one percent tax was placed on stock buybacks.

But despite the tax and record setting P/E ratios, publicly traded U.S. companies announced plans to buyback approximately \$1.1 trillion of their own stock in 2024 alone. During periods of low P/E ratios, it could be argued that a buyback program could reasonably boost the company's stock price and be a good use of company cash. However, as Reuters wrote in 2015, "..... stock buybacks during periods of

high P/E ratios enrich the bosses even when business sags as the company awards the purchased stocks to management."

For example, in May 2024, Apple announced plans to repurchase \$110 billion of its own stock. As expected, the repurchase authorization drove a same-day gain of 6%. This gain is despite the fact that the stock was selling for \$192.25 per share with expected future earnings of \$6.16 per share for a P/E of 31.2, or a rate-of-return of 3.2% for Apple's investment. This return was less than the rate-of-return on a two-year U.S. Treasury bond with significantly less risk than Apple stock.

Thus, Apple would have provided stockholders with less risk and higher returns by purchasing U.S. Treasury bonds instead of buying back its own stock. Management would argue that future earnings will grow significantly thus lowering the P/E ratio, increasing the rate-of-return with low risks. However, since the buyback, Apple earnings and earnings rate-of-return have fallen.

Despite the federal tax on buybacks and record setting price-to-earnings ratios, firms continue to expand stock buybacks. This action is bad timing on the part of the company. Other factors equal, a company should only buyback stock when it is cheap (i.e. low price-earnings ratio).

With a January 3, 2025 average P/E ratio of 29.7 (rate-of-return equal to 3.4% compared to 4.3% for a 2-year U.S. Treasury bond), stock buybacks make little economic sense for the average U.S. S&P stockholder in today's financial environment.

Ernie Goss.

BULLISH NEWS

- According to the WSJ, states took bold and positive 2024 tax reductions:
 - New Hampshire eliminated its 5% tax on dividends (also no income tax)
 - Iowa enacted a 3.8% income tax replacing its 8.98% burden.
 - Louisiana reduced its income tax rate from 4.25% to 3.0%.
 - Mississippi cut its income tax rate from 4.7% to 4.4%.
 - North Carolina reduced its tax rate from 4.5% to 4.25%.
 - The number of states with flat taxes rose from 9 to 14 in the past 4 years.

BEARISH NEWS

- On average, it takes six months for the unemployed to find a job (about one month longer than in 2023).
- The U.S. budget deficit tops \$1.8 trillion for fiscal 2024 and is third largest on record. A wartime deficit in a peacetime economy.
- The budget deficit for Nov. 2024 was \$367 billion, or up \$80 billion from Nov. 2023.

Main\$street on Your \$treet

Overall: The region’s overall reading for December plummeted to 39.6 from November’s much stronger 50.2. It was eleventh time this year that the overall reading has fallen below growth neutral. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

In retrospect, and based on bank CEO comments, there appears to have been a significant November upturn resulting from the surprising Trump election results. That positive bump disappeared in December as continuing weak grain prices, and farm income losses weighed on a significant proportion of farmers in the region.

As reported by Jim Eckert, CEO of Anchor State Bank in Anchor, Illinois, “Our area farmers continue to be hurt by increased input prices, higher interest rates, and low commodity prices.”

Approximately, one in four bankers reported that their local economy was either currently in a recession, or would enter a downturn in 2025. The remaining three of four bankers expect slow growth, but no recession for 2025.

Other comments from bankers in December:

- Jeff Bonnett, CEO of Havana National Bank in Havana, Illinois said, “Based upon reluctance of Congress to pass the FARM Act and assist farmers of all sectors, the continued commodity price crisis will continue into 2025.
- Larry Winum, CEO of Glenwood State Bank, said, “I want to express my condolences to the Bill McQuillan family with his recent passing. Bill was an awesome community banker and advocate for the industry. I know he worked closely with Dr. Goss to create the Mainstreet survey that we all benefit from each month. Rest in peace my friend!”

Farming and ranch land prices: For the seventh time in the past eight months, farmland prices sank. The region’s farmland index fell to 41.3 from November’s weak 44.4. Elevated interest rates and higher input costs, along with below breakeven grain prices for some farmers in the region, have significantly reduced farmer demand for ag land.



Jeff Bonnett, CEO of Havana National Bank in Havana, Illinois said, “The pessimistic view in my responses comes from the fact that we are pretty much a “grain production” funding Ag bank. That is the makeup of the market that we serve.”

According to trade data from the International Trade Association (ITA), regional exports of agriculture goods and livestock for 2024 year-to-date rose to \$9.98 billion from \$9.71 billion from the same period in 2023 for a 2.8% gain.

Farm equipment sales: The farm equipment sales index slumped to 14.3, its lowest level since October 2016, and down from 14.6 in November. This is the 17th 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 December loan volume index advanced to 69.6 from November’s solid 58.9. The checking deposit index fell to 47.8 from 59.3 in November. The index for certificates of deposits (CDs) and other savings instruments sank to 50.1 from 53.7 in November. Federal Reserve interest rate policies have boosted CD purchases above growth neutral for 25 straight months.

Roughly, 21.7% of bankers indicated that their bank had raised credit standards over the past 12 months.

Hiring: The new hiring index for December dropped to 45.7 from November’s 50.0.

Confidence: Rural bankers remain pessimistic about economic growth for their area over the next six months. The December confidence index slumped to 37.5 from November’s weak 46.4. Weak agriculture commodity prices and negative farm cash flow, combined with downturns in farm equipment sales over the past several months, continued to push banker confidence below growth neutral.

GOSS EGGS

RECENT DUMB Economic Political Actions

President Biden Leaves a Messy White House

A cleaning crew needs to storm the White House and clean up the economic mess left by the former tenant.

President Biden announced a permanent stop to new oil and gas drilling in certain, yet to be defined, federal waters off Atlantic & Pacific coasts.

Biden also intends to announce a program to preserve more than 800,000 acres of ecologically and culturally significant tribal lands.

While Trump agrees with Biden's decision to block Japan's Nippon Steel's purchase of U.S. Steel for almost \$15 billion, it is contrary to the policy of incentivizing capital investment in the U.S. He is throwing a bone to labor bosses, while stiffing U.S. workers.

First, Biden has essentially written IOUs for two ongoing wars-one in Ukraine and the other in the Middle East.

As of Sept. 30, 2024, the U.S. funding for the Ukraine-Russia War totals nearly \$183 billion with \$130.1 billion obligated and \$86.7 billion disbursed.

Biden rescinded Trump's Executive Order which created a new class of federal workers who are exempt from Civil Service Protection. Trump may reinstate.

4 OF 5 GOSS EGGS



Home and retail sales: Home sales improved slightly to a weak 43.5 from 42.6 in November. On the other hand, regional retail sales, much like the nation's, were stronger with a reading of 52.1, up briskly from November's reading of 42.0.

Below are the state reports:

Colorado: The state's Rural Mainstreet Index (RMI) for December fell to 54.2 from 60.3 in November. The farmland and ranchland price index for December declined to 54.7 from November's 57.5. The state's new hiring index decreased to 54.1 from November's 65.6. According to trade data from the International Trade Association (ITA), Colorado exports of agriculture goods and livestock for 2024 year-to-date rose to \$361.6 million from \$145.0 million from the same period in 2023 for a 149.4% gain.

Illinois: The state's December Rural Mainstreet Index (RMI) dropped to 46.5 from 54.3 in November. The farmland price index increased slightly to 42.9 from November's 42.4. The state's new hiring index declined to 43.1 from 49.1 in November. According to trade data from the ITA, Illinois exports of agriculture goods and livestock for 2024 year-to-date expanded to \$3.8 billion from \$3.6 billion from the same period in 2023 for a 4.1% gain. Jeff Bonnett, CEO of Havana National Bank in Havana said, "Some are forecasting that commodity prices could remain at current levels into the 2026 crop year. That will not be a pleasant experience."

Iowa: December's RMI for the state slumped to 41.7 from 49.6 in November. Iowa's farmland price index for December rose to 41.5 from 41.1 in November. Iowa's new hiring index for December fell to 45.5 from 49.3 in November. According to trade data from the ITA, Iowa exports of agriculture goods and livestock for 2024 year-to-date sank to \$1.27 billion from \$1.28 billion from the same period in 2023 for a reduction of 1.3%.

Kansas: The Kansas RMI for December sank to 37.4 from November's 45.3. The state's farmland price index dropped to 37.4 from 42.3 in November. The new hiring index for Kansas declined to 44.0 from 47.9 in November. According to trade data from the ITA, Kansas exports of agriculture goods and livestock for 2024 year-to-date rose to \$1.11 billion from \$1.09 billion for the same period in 2023 for a 2.9% gain.

Minnesota: The December RMI for Minnesota fell to 53.2 from November's 71.2. Minnesota's farmland price index decreased to 47.6 from 50.5 in November. The new hiring index for December climbed to 53.0 from 51.2 in November. According to trade data from the ITA, Minnesota exports of agriculture goods and livestock for 2024 year-to-date fell to \$881.7 million from \$1.01 billion from the same period in 2023 for a reduction of 13.0%.

Missouri: The state's December RMI fell to 50.6 from November's 57.7. The farmland price index for December rose to 59.5 from 53.2 last month. The state's new hiring gauge for November dropped to 56.7 from 71.9 in October. According to ITA trade data, Missouri exports of agriculture goods and livestock for 2024 year-to-date sank to \$788.5 million from \$1.00 billion from the same period in 2023 for a 21.9% reduction

Nebraska: The Nebraska Rural Mainstreet Index for December slumped to 36.5 from November's 44.4. The state's farmland price index for December sank to 40.0 from 42.9 in November. Nebraska's new hiring index declined to 43.7 from 47.9. According to trade data from the ITA, Nebraska exports of agriculture goods and livestock for 2024 year-to-date expanded to \$730.5 million from \$620.3 million from the same period in 2023 for a 17.8% gain.

North Dakota: North Dakota's RMI for December dropped to 47.4 from November's 55.3. The state's farmland price index sank to 43.1 from 46.0 in November. The state's new hiring index fell to 47.5 from 51.3 in November. According to trade data from the ITA, North Dakota exports of agriculture goods and livestock for 2024 year-to-date rose to \$916.6 million from \$792.7 million from the same period in 2023 for a 15.6% gain.

South Dakota: The December RMI declined to 39.3 from November's 47.1. The state's farmland price index dipped to 40.7 from 43.7 in November. The state's December new hiring index dropped to 44.6 from November 48.5. According to ITA trade data, South Dakota exports of agriculture goods and livestock for 2024 year-to-date climbed to \$120.0 million from \$111.9 million from the same 2023 period for a 9.1% gain.

Wyoming: The December RMI for Wyoming sank to 31.6 from 39.4 in November. The December farmland and ranchland price index decreased to 38.6 from November's 41.5. Wyoming's new hiring index slumped to 41.9 from 45.8 in November. According to trade data from the ITA, Wyoming exports of agriculture goods and livestock for 2024 year-to-date sank to \$3.5 million from \$4.8 million from the same period in 2023 or a reduction of 25.6%.



KEEP AN EYE ON

Keep an eye on the yield on the 10-yr U.S Treasury bond. It has climbed above 4.55% 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, 2025 rate cuts.

Employment Report for January. On Jan. 10th (this morning) the U.S. BLS releases its job estimates for December. Another strong reading (above 200,000) will push the Fed to cease any rate cuts.

Listen daily for media statements by member of the Fed Governors on likely interest rate moves.

FOMC meeting on Jan. 28-29. I expect no rate change (at least as of today).

STATISTIC(S) OF THE MONTH
1.0%

Despite a 1.0% reduction in rates by the Federal Reserve in September, the average 30-year mortgage rate has climbed by 1.0%. Why? Investors see inflation as a much bigger issue/problem than the Fed.

THE OUTLOOK. The Conference Board (Dec. 18, 2024) “As expected, the Fed cut interest rates by 25 basis points at the December 2024 meeting but sent a strong message that the inflation fight is far from over in the Summary of Economic Projections (SEP). In the SEP, FOMC participants made material revisions, including pushing back the timing of a return to the 2-percent inflation target from 2026 to 2027 and slowing the pace of interest rate cuts. Additionally, the cutting cycle may not end until sometime in 2027 or even later, not in 2026.”

What’s Ahead: “*Unsurprisingly, the Fed cut policy rates by 25 basis points at the December meeting consistent with consensus expectations. *There was a small likelihood of a pause given stronger-than-expected data and sticky inflation, which likely prompted the Cleveland Fed President to dissent to the cut, and for the Fed Chair to say that cutting was a close call. *Somewhat surprisingly, FOMC participants dramatically altered projections in the SEP, with major changes to when they believe inflation will stabilize at target and when the Fed can stop cutting interest rates.*In The Conference Board US Economic Forecast for December 2024, posted earlier this week, we raised growth and inflation forecasts and lifted the unemployment rate a tad for the next two years as the Fed did. We also delayed the timing of convergence to the 2 percent inflation target and when the Fed would stop cutting.” <https://tinyurl.com/yz6zav92>

BANKER READING ROOM

2025 Banking and Capital Markets Outlook, Deloitte

“As the banking industry adapts to a low-growth, lower-rate environment, banks can reinforce their foundation for sustainable growth with ingenuity and discipline.”

“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, sub-par 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.”

“The US economy will likely have performed better than expected in 2024, with annual GDP growth estimated to end at 2.7%, higher than forecast at the beginning of the year.”

“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 baseline scenario. Moderating consumer spending, a rising unemployment rate, and weak business investment could dampen growth.”

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

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For historical data and forecasts, visit our website:

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

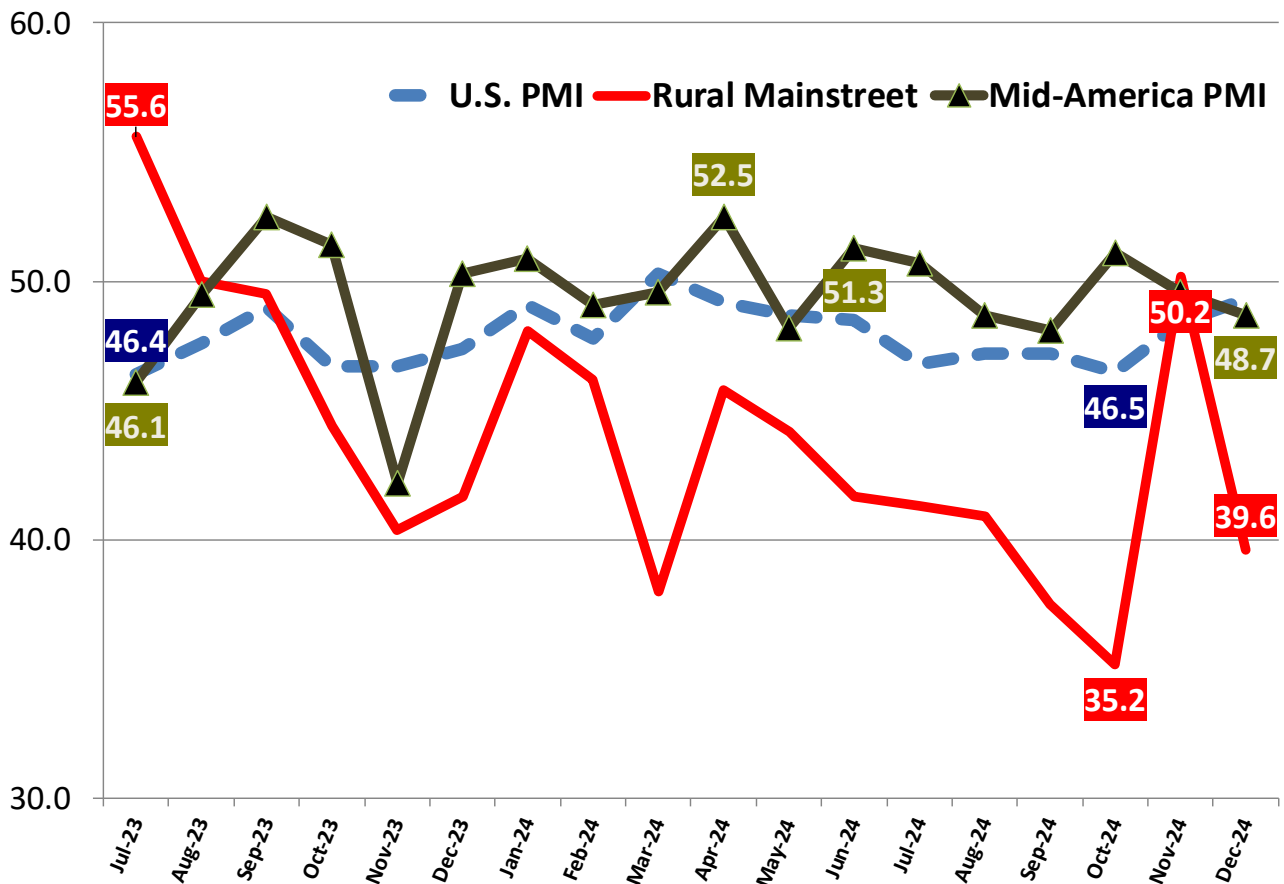
For ongoing commentary on recent economic developments, visit:

Goss monthly interview at: <https://bit.ly/MidAmericaBCIDecember2024YouTube>

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 December Survey

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

| | Dec. 2023 | Nov. 2024 | Dec. 2024 |
|---|-----------|-----------|-----------|
| Area Economic Index | 41.7 | 50.2 | 39.6 |
| Loan Volume | 80.9 | 58.9 | 69.6 |
| Checking Deposits | 41.4 | 59.3 | 47.8 |
| Certificates of Deposit and Savings Instruments | 65.5 | 53.7 | 50.1 |
| Farmland Prices | 67.2 | 44.4 | 41.3 |
| Farm Equipment Sales | 49.5 | 14.6 | 14.3 |
| Home Sales | 31.0 | 42.6 | 43.5 |
| Hiring | 49.1 | 50.0 | 45.7 |
| Retail Business | 46.6 | 42.0 | 52.1 |
| Confidence Index (area economy six months out) | 43.3 | 46.4 | 37.5 |

Table 2: The Rural Mainstreet Economy, December 2024

| | Percentage of Bankers Reporting | | | |
|---|---------------------------------|---------------------------------|-----------------------|------------------------|
| | Lower by -1% to -4% | Unchanged | Higher by 1% to 4% | Higher by 5% to 10% |
| Your bank loan delinquency rates over the past six months are: | 4.5% | 65.2% | 26.1% | 4.2% |
| | Percentage of Bankers Reporting | | | |
| | Already in Recession | No Recession but Slow Growth | Modest Recession | |
| What is your U.S. recession assessment for 2025? | 4.4% | 74.8% | 20.8% | |
| | Percentage of Bankers Reporting | | | |
| | No Change in Credit Standards | Tightened Credit Standards | | |
| Compared to this time last year, which of the following best describes farm loan credit standards at your bank: | 78.3% | 21.7% | | |