

THE MAINSTREET ECONOMIC REPORT

February 2021

A monthly survey of community bank CEOs

Welcome to Creighton's February Bank CEO Report covering January survey results. January's overall reading from bank CEOs in 10 Rural Mainstreet States rose above growth neutral with improving farmland prices, and expanding farm equipment sales. Ernie

Mainstreet Versus Wallstreet: Stocks Did Better Under Democrat Presidents

Workers Did Better Under Republican Presidents

Since the onset of Covid-19, Wallstreet, as captured by stock market indices, has significantly outperformed the overall U.S. economy. Since the fourth quarter of 2019 until the end of the fourth quarter of 2020, the Standard & Poor's 500 index (S&P) soared by 14.6% as the overall U.S. economy (GDP) shrank by 1.2%. This has caused critics to argue that the responses of the Republican Whitehouse, and the Federal Reserve (Fed) to Covid-19, as well as other economic maladies, have benefited Wallstreet business interests at the expense of workers, and small businesses on Mainstreet. Is there merit in the critics' argument?

Figure 1 compares the ratio of the S&P stock average and employee compensation to GDP from 1985 to 2020. As presented, since reaching a low of 52.6% of GDP in 2014 in the Obama Administration, employee compensation has risen to 54.6% in 2019 (the latest data) in the Trump Administration. During this same period of time, the S&P stock average climbed from 11.1% to 15.4% of GDP. However, the Fed has been clearly on the side of the stock market by reducing interest rates during 2020. For example, the yield on the 6-month U.S. Treasury bond tumbled from an average 2.11% in 2019 to 0.37% in 2020.

Table 1 compares the impact of 16 years of Democrat presidencies versus 20 years of Republican presidencies on stocks and workers. As presented in Table 1, stocks and business profits have expanded at a faster pace during Democrat presidencies, while worker compensation excelled under Republican presidencies. Likewise, the Fed appears to have been more supportive of stocks during Democrat presidencies than Republican presidencies by keeping interest rates lower.

While differences between Democrat and Republican presidencies listed in Table 1 are not substantial, they are surprising and contrary to the popular narrative. Furthermore, differences may spring from many factors, just one of which is control of the White House.

Figure 1: Ratio of S&P index, and employee compensation to GDP, 1985 to 2020

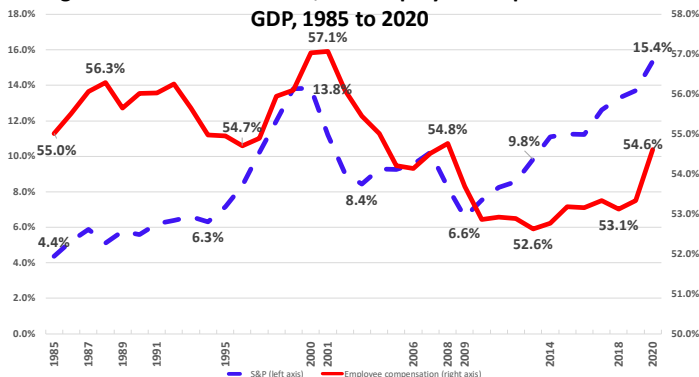


Table 1: Average S&P stock index, business profits and employee compensation as % of GDP by presidency, 1985-2020

S&P	Employee compensation	Business Profits	Yield on 6-month U.S. Treasury	Presidency	Years
9.5%	54.3%	10.6%	2.6%	Democrat	16
8.7%	55.2%	9.3%	4.1%	Republican	20

S&P = S&P 500 divided by GDP; Profit and wage data were not available for 2020.

MAINSTREET RESULTS

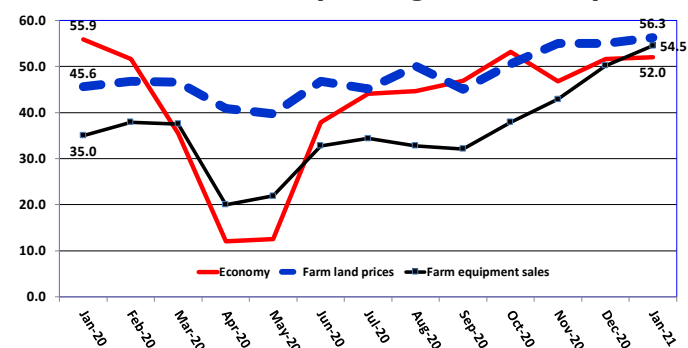
Rural Mainstreet Economy Stabilizes in Growth Range: Concerns Over Loan Defaults Drops Significantly

January Survey Results at a Glance:

- Overall index rose to its second highest reading since before COVID-19.
- Bankers biggest economic concerns for 2021 are excessive inflation and higher long-term interest rates.
- For the first time since 2013, Creighton's survey has recorded four straight months of above growth-neutral farmland prices.
- Farm equipment-sales index rose to its highest reading since April 2013.
- Approximately 44% of bank CEOs expect low loan demand to be the greatest issue facing their banks for 2021, up from 7% last year at this time.
- Only 4% of bankers indicated that rising loan defaults and bankruptcies represented their greatest concern for 2021, down significantly from the 32% in 2020 survey.

Tables 2-4 summarize the survey findings. Next month's survey results will be released on the third Thursday of the month, Feb. 18.

Rural Mainstreet, Economic Indicators, Jan. 2020 – Jan 2021 (50.0 = growth neutral)



	Jan. - 20	Dec. - 20	Jan. - 21
Area economic index	55.9	51.6	52.0
Loan volume	48.5	43.8	33.9
Checking deposits	76.5	78.1	88.0
Certificates of deposit and savings instruments	60.3	42.2	46.0
Farmland prices	45.6	54.8	56.3

Table 3: Top 2021 concerns for economy (6 = most important, 1=not important)

	Average score
1. Excessive inflation & higher long-term interest rate	4.1
2. A double-dip recession (W-shaped recover)	4.0
3. Trade restrictions and/or higher tariffs	3.6
4. Higher loan defaults and bankruptcies	3.4
5. Rising federal taxes	3.0
6. Higher and more restrictive regulations	2.8

Source: Creighton's January 2020 and January 2021 Rural Mainstreet Surveys

Table 4: Top 2021 concerns for farming economy (10= most important, 1=not important)

1. Water availability	7.4
2. Farm labor (cost and availability)	7.0
3. Third party financing	6.7
4. Land rents and land values	5.7
5. Uncertainty around tariffs and trade	5.3
6. Covid-19 and its economic impacts	4.9
7. Total leverage	4.5
8. Federal government financial support	4.4
9. Farm income levels	4.3

MAINSTREET ON YOUR STREET

For the third time in the past four months, the Creighton University Rural Mainstreet Index (RMI) climbed above growth neutral. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, the index increased to its second highest level since January 2020.

Overall: The overall index for January rose to 52.0 from December's 51.6. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Recent sharp improvements in agriculture commodity prices, federal farm support payments, and Federal Reserve's record-low short-term interest rates have underpinned the Rural Mainstreet Economy in a solid and positive growth range. However, the rural economy remains well below pre-pandemic levels.

Bankers reported that their biggest economic concerns for 2021 are excessive inflation and higher long-term interest rates.

Jim Levick, president of Nebraska State Bank in Oshkosh, Nebraska said, "I feel the economy is moving in a positive direction that can be rattled by a combination of higher taxes, higher inflation, and a return of stricter regulation."

Farming and ranching: For a fourth straight month, the farmland price index advanced above growth neutral. The January climbed to 56.3, its highest level since July 2013, and up from 55.0 in December. This is first time since 2013 that Creighton's survey has recorded four straight months of above growth-neutral farmland prices.

The January farm equipment-sales index rose to 54.5, its highest reading since April 2013, and up from 50.2 in December. After 86 straight months of readings below growth neutral, farm equipment bounced into growth territory for the last two months.

As a result of the rapidly improving farm economy, the farm Exchange Traded Fund (MOO) traded on the New York Stock Exchange has risen to a record high of \$83.32.

Banking: Bankers once again reported anemic loan volumes. The January loan volume index dropped to 33.9 from December's 43.7, but up from November's record low 25.8. The checking-deposit index soared to record high 88.0 from December's 78.1, while the index for certificates of deposit, and other savings instruments increased to 46.0 from 42.2 in December.

Approximately 44% of bank CEOs expect low loan demand to be the greatest issue facing their banks for 2021. This is up from 7% that recorded this as a top concern last year at this time.

One year ago, 32% of bankers indicated that rising loan defaults and bankruptcies were their greatest concern for 2020. This is significantly above the 4% of bankers that registered this as their greatest 2021 issue.

However, 24% indicated that rising competition from untaxed credit unions and Farm Credit posed the greatest 2021 bank threat. This is well up from the 5% recorded last year at this time. Joseph Anglin, senior vice president and chief financial officer at Pioneer Bank & Trust in Rapid City, South Dakota, said, "We compete day-in-and-day-out with them and they simply have a 21% advantage that they can leverage over tax paying banks."

Hiring: The new hiring index fell to 46.0 from December's 50.0, and November's 53.2. Data from the U.S. Bureau of Labor Statistics indicate that nonfarm employment levels for the Rural Mainstreet economy are down by 145,000 (nonseasonally adjusted), or 3.3%, compared to pre-COVID-19 levels, and by 251,000, or 5.6%, from 12 months earlier.

It will take many months of above growth neutral readings to get back to pre-COVID-19 employment levels for the region.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, declined slightly to a still healthy 60.0 from December's 62.9. Federal farm support payments, improving gain prices, and advancing exports have supported confidence offsetting negatives from pandemic ravaged retail and leisure and hospitality companies in rural areas.

Home and retail sales: The home-sales index fell to a still healthy 60.0 from 71.0 in December. The retail-sales index for January increased to a frail 42.0 from 40.6 in December. On-line buying and business closures linked to COVID-19 continue to harm the region's retailers.

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent portions of a 10-state area are surveyed regarding current economic conditions in their communities, and their projected economic outlooks six months down the road. Bankers from Colorado, Illinois, Iowa, Kansas, Minnesota, Missouri, Nebraska, North Dakota, South Dakota and Wyoming are included.

This survey represents an early snapshot of the economy of rural agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It gives the most current real-time analysis of the rural economy. Goss and Bill McQuillan, former chairman of the Independent Community Banks of America, created the monthly economic survey in 2005.

Below are the state reports:

COLORADO

The farmland and ranchland-price index expanded to 51.1 from 50.5 in December. Colorado's hiring index for January sank to 41.8 from December's 46.7. Over the past 12 months, Colorado's Rural Mainstreet economy has lost 12.5% of its nonfarm employment compared to a 3.8% loss for urban areas of the state.

ILLINOIS

The January RMI for Illinois slipped to 50.6 from 51.5 in December. The farmland-price index advanced to 55.6 from December's 54.8. The state's new-hiring index sank to 46.3 from 51.0 in December. Jeff Bonnett, President Havana National Bank in Havana reported that, "Farmland values in our general area are not on the decline as supported by recent auctions." Over the past 12 months, Illinois' Rural Mainstreet economy has lost 5.9% of its nonfarm employment compared to a 7.0% loss for urban areas of the state.

IOWA

The January RMI for Iowa increased to 51.2 from December's 50.2. Iowa's farmland-price index rose to 55.9 from 54.1 in December. Iowa's new-hiring index for January fell to 46.6 from 50.3 in December. James Brown, CEO of Hardin County Savings Bank in Eldora, reported, "Our ag customer reviews have been much better than we anticipated last fall due to improved commodity prices and insurance payments from the derecho." Over the past 12 months, Iowa's Rural Mainstreet economy has lost 6.0% of its nonfarm employment compared to a 4.5% loss for urban areas of the state.

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KANSAS

The Kansas RMI for January increased to 53.6 from 52.7 in December. The state's farmland-price index increased to 57.1 from December's 55.4. The new-hiring index for Kansas fell to 47.8 from 51.6 in December. Over the past 12 months, Kansas' Rural Mainstreet economy has lost 4.0% of its nonfarm employment compared to a 4.5% loss for urban areas of the state.

MINNESOTA

The January RMI for Minnesota rose to 48.0 from December's 46.3. Minnesota's farmland-price index climbed to 54.3 from 52.2 in December. The new-hiring index for January sank to 45.0 from December's 48.3. Over the past 12 months, Minnesota's Rural Mainstreet economy has lost 6.6% of its nonfarm employment compared to a 6.4% loss for urban areas of the state.

MISSOURI

The January RMI for Missouri jumped to a regional high 63.6 from 60.3 in December. The farmland-price index expanded to 62.1 from December's 59.2. The state's hiring gauge slumped to 49.1 from 55.4 in December. Over the past 12 months, Missouri's Rural Mainstreet economy has experienced an increase in the size of its nonfarm employment by 1.5%, compared to a 4.3% loss for urban areas of the state.

NEBRASKA

The Nebraska RMI for January expanded to 55.6 from December's 54.2. The state's farmland-price index declined to 56.1 from last month's 56.2. Nebraska's new-hiring index fell to 45.4 from 52.3 in December. Rod Cornelius, Branch President, Pinnacle Bank, Ogallala said, "Increase in grain prices - bonus for the procrastinating marketer." Over the past 12 months, Nebraska's Rural Mainstreet economy has lost 3.0% of its nonfarm employment compared to a 2.6% loss for urban areas of the state.

NORTH DAKOTA

The North Dakota RMI for January increased to 39.6 from December's 36.8. The state's farmland-price index slipped to 50.1 from 50.5 in December. The state's new-hiring index sank to 42.1 from December's 48.7. Over the past 12 months, North Dakota's Rural Mainstreet economy has lost 11.4% of its nonfarm employment compared to a 4.4% loss for urban areas of the state.

SOUTH DAKOTA

The January RMI for South Dakota advanced to 58.4 from 57.7 in December. The state's farmland-price index climbed to 59.5 from 57.9 in December. South Dakota's January hiring index plummeted to 50.2 from 57.9 in December. Over the past 12 months, South Dakota's Rural Mainstreet economy has lost 2.1% of its nonfarm employment compared to a 4.4% loss for urban areas of the state.

WYOMING

The January RMI for Wyoming improved to 51.4 from December's 49.4. The January farmland and ranchland-price index expanded to 56.0 from 53.8 in December. Wyoming's new-hiring index slumped to 56.7 from December's 49.9. Over the past 12 months, Wyoming's Rural Mainstreet economy has lost 5.0% of its nonfarm employment compared to a 4.7% loss for urban areas of the state.

STATISTIC OF THE MONTH

70.9%. According to the Wallstreet Journal, 70.9% of previous stimulus checks were either saved (36.4%), or used to pay down debt (34.5%). Thus, the payments failed in the goal to significantly stimulate consumer spending.

THE BULLISH NEWS

- Stock prices, as measured by the S&P 500, have soared by 5% since the beginning of 2021.
- The USDA said U.S. stockpiles of corn and soybeans would shrink to their lowest levels since 2014 and the average price for corn and soybeans this marketing year would be the highest since 2013-14.
- The latest Purchasing Management indices (PMI) for both ISM's national survey and Creighton's Mid-America were in a range indicating very healthy manufacturing growth.
- Over the past 12 months, according to the Case-Shiller national home price index, housing prices expanded by 9.5% in November (one of the highest on record).

THE BEARISH NEWS

- U.S. payroll employment expanded at a snail's pace of 50,000 jobs and 406,000 workers left the labor force.
- The U.S. debt has climbed to \$27.2 trillion.
- As a percent of GDP, the U.S. budget deficit will rise to its highest level since World War II.
- The 2020 trade deficit climbed to its highest level in more than 12 years.

KEEP AN EYE ON

- **U.S. Inflation Report.** On March 10, the U.S. Bureau of Labor Statistics releases its consumer price index (CPI) for February.
- **U.S. Retail Sales for January.** On Feb. 17, the U.S. Census Bureau releases retail and food services sales for January. Look for weaker reports to signal a buying pullback by the U.S. consumer.
- **U.S. Jobs Report.** On March 5, the U.S. Bureau of Labor Statistics releases its job numbers for February. Another disappointing report would encourage Congress to expand economic stimulus programs.
- **Creighton's Rural Mainstreet report.** On February 18th, Creighton releases its February survey results of bank CEOs in rural areas of 10 states in the Rocky Mountains and Plains states. Growth in the rural economy has been solid and improving.

THE OUTLOOK

The Conference Board (February 2021). "Real GDP growth will probably rise by 3.5 percent* (annualized rate) in 4Q20 and 2.0 percent** in 1Q21 as the US economy continues to wrestle with the COVID-19 pandemic. The Conference Board has generated three potential recovery scenarios based on specific sets of assumptions. Our base case forecast yields 1Q21 real GDP growth of 2.0 percent* (annualized rate), and an annual expansion of 4.1 percent for 2021, following an annual contraction of 3.5 percent for 2020. Alternatively, we offer a second more optimistic scenario in which the economy grows 6.4 percent for 2021, following an annual contraction of 3.5 percent for 2020. Finally, we offer a third more pessimistic scenario in which the US economy contracts in 1Q21 before stabilizing over the summer. This scenario yields annual growth of 0.8 percent in 2021."

"Goss (Feb. 2021): **Since the presidential elections, the yield on U.S. long-term Treasury bonds has expanded from 0.83% to 1.17%. I expect that yield to climb by another ¼ % (25 basis points) by the end of Q1, 2021. Mortgage rates, which have not expanded yet, will rise by 25 basis points by the end of Q1, 2021. **Annualized and seasonally adjusted Q1 2021 GDP growth will range between 2% to 3%.

GOSS EGGS (Recent Dumb Economic Moves)

Despite approval by the Obama Administration's State Department, the Biden Administration killed the Keystone XL pipeline by Executive Order. Apparently, the Biden Administration wants greater infrastructure, but only U.S. taxpayer funded infrastructure. His decision kills high wage jobs that contribute to a cleaner environment (i.e. pipeline delivery is much more environmentally friendly than trucks or trains). I consulted with TransCanada for 3 years on this project and can report that this decision costs the State of Nebraska \$311 million (2018 \$\$s) in state and local tax collections, and support for K-12 education in 12 Nebraska counties.

BANKER READING ROOM

ICBA Policy Positions: “*Community banks need regulatory relief to support the financial needs of their customers, serve their communities, and contribute to their local economies.
*ICBA’s regulatory platform, “Community Focus 2020: The Community Bank Agenda for Expanding Economic Opportunity,” contains targeted measures that would build upon the success of 2018’s landmark legislation, S. 2155, by rolling back onerous rules and providing additional regulatory relief for community banks.
*ICBA urges Congress and the regulatory agencies to continue to expand and refine a tiered regulatory and supervisory system that recognizes the significant differences between community banks and large, complex institutions in terms of the risks they pose to consumers and to the financial system.
*To preserve their original purpose, thresholds for regulatory accommodations and exemptions based on asset size and transaction volume should be continually reviewed and adjusted upward as community banks consolidate and the average asset size of banks increases.” www.tinyurl.com/13zelk5o

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