

Happy New Year to all of you, and to your families and friends. Welcome to Creighton's January Bank CEO Report covering December survey results. December's overall reading from bank CEOs in 10 Rural Mainstreet States rose into a very healthy range with record growth in farmland prices, and expanding farm equipment sales. Ernie

Inflation Winners & Losers: Wages Rise, But Less than Inflation

Over the past 12 months, the nation's inflation rate, as gauged by the consumer price index (CPI), rose at its fastest pace since Jack Benny was 39 years old (that's for all of you baby-boomers). At 7.0%, the last time CPI growth climbed at a faster pace was in 1982. This compares to only 1.1% for the same period in 2020.

But even this rapid surge understates the actual rate as measured in 1982. The U.S. Bureau of Labor Statistics (BLS) has moved away from computing it as the rising cost of owning a home to calculating how much the rental cost for that same home expands—a measurement known as owners' equivalent rent. Thus, the BLS estimated that shelter costs increased by only 4.1% in past 12 months despite the fact that the Case-Shiller home price index soared by 19.0% and the U.S. median home listing price jumped 10.0% from 12 months earlier to \$375,000 in November 2021. Thus today's 6.8% is in reality much higher than otherwise comparable 1980's reading.

Even with an understated inflation rate, who won and who lost from rocketing 2021 inflation?

2021 Losers? In terms of inflation adjusted returns for 2021: Worker hourly wages sank by 2.5%; U.S. long term U.S. Treasury bond holders lost 11.5%; Gold owners lost 10.5%; Renters of one-bedroom apartments suffered an increase of 14.5%. CD savers lost 5.3%.

2021 Winners? In terms of inflation adjusted returns for 2021: Bitcoin owners earned 117.4%; Standard & Poor's stock investors advanced 34.0%; NASDAQ stock prices expanded by 35.2%; Urban home prices exploded by 19.1%; Small cap stock owners (Russell 2000) gained 1.5%.

Who will win and lose in 2022? To dampen inflation in 2022, Federal Reserve is expected to raise short-term rates by 0.75%, and to reduce its monthly purchases of U.S. Treasury bonds from \$80 billion per month to \$0. This action will push market interest rates higher making investors turn away from stocks with high price-earnings ratios (primarily growth stocks). That is stocks earnings years ahead. Inflation above 4% for 2022, with Fed rates to match, will be bad for stocks, especially growth stocks.

How can individuals protect themselves from inflation? One of the best investment options for investors is I-bonds sold by the U.S. Treasury. Currently, these bonds earn 7.2% and are adjusted for inflation. However, investors are limited to \$10,000 in bond purchases each year. Also, if GDP growth is solid and inflation is 3% - 4%, S&P stocks will expand at a better pace than NASDAQ stocks. Above 4%, I am avoiding stocks and non-inflation adjusted bonds and commodities.

	Dec. - 20	Nov. - 21	Dec. - 21
Area economic index	51.6	67.7	66.7
Loan volume	43.8	53.2	61.7
Checking deposits	78.1	71.0	68.3
Certificates of deposit and savings instruments	42.2	32.3	26.7
Farmland prices	54.8	85.5	90.0
Farm equipment sales	50.1	62.1	74.1
Home sales	71.0	65.0	72.4
Hiring	50.0	67.7	69.0
Retail business	40.6	58.1	68.3
Confidence index (area economy six months out)	62.9	48.4	55.2

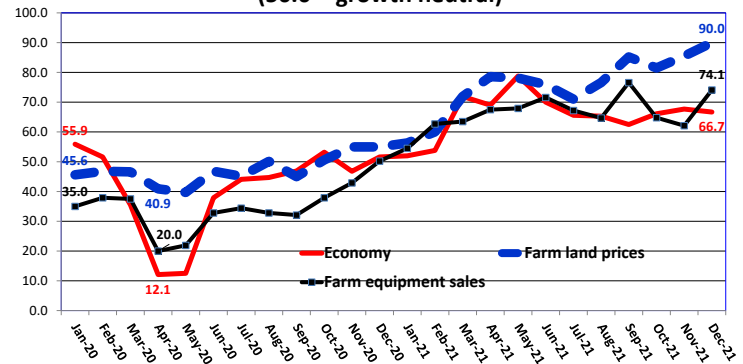
MAINSTREET RESULTS

Rural Mainstreet Economy Expanding: Farmland Price Growth Soars to Another Record High

December Survey Results at a Glance:

- Overall index moved above growth neutral for the 13th straight month indicating healthy, consistent growth for the region.
- For a third straight month, the farmland price index rocketed to another record high.
- According to Bank CEOs, annual cash rents for non-irrigated, non-pasture farmland soared to \$262 from \$218 in February 2020, a month before the pandemic onset.
- Only 6.7% of bankers indicated that their local economy was contracting.
- Farm equipment sales climbed to highest level in more than 10 years.

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



Tables 1 and 2 summarize the survey findings. Next month's survey results will be released on the third Thursday of the month, Jan. 20.

	Percentage of bankers reporting				
	Financial Stress	Cash position unchanged	Solid Cash position	Very Strong Cash Position	
Which of the following represents farmers' current financial condition in your area:	3.3%	13.3%	83.3%	0.0%	
	Percentage of bankers reporting				
	Modest economic downturn	Little or no growth	Modest Economic upturn	Strong economic growth	
How would you describe the economy in your area?	6.7%	23.3%	63.1%	6.9%	
	Percentage of bankers reporting				
	Below \$150	\$150 - \$249	\$250 - \$299	\$300 - \$349	\$350 - \$399
What is the average annual cash rent per acre for cropland (not pasture) in your area?	0.0%	40.0%	30.0%	26.6%	3.4%

MAINSTREET ON YOUR STREET

For the 13th straight month, the Creighton University Rural Mainstreet Index (RMI) remained 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.

Overall: The region's overall reading for December slipped to 66.7 from November's 67.7. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Solid grain prices, the Federal Reserve's record-low interest rates, and growing exports have underpinned the Rural Mainstreet Economy. USDA data show that 2021 year-to-date agriculture exports are more than 20.7% above that for the same period in 2020. This has been an important factor supporting the Rural Mainstreet economy.

Todd Douglas, CEO of First National Bank in Pierre, South Dakota, reported, "With the paycheck protection program (PPP) monies, and good commodity prices, even with some areas of reduced yields due to lack of moisture, agriculture borrowers should be in good shape for 2022."

Seven of 10 bankers described their local economy as expanding, while only 6.7% indicated that their local economy was in a modest economic downturn.

Farming and ranching: The region's farmland price index improved to a very strong, and record high of 90.0 from November's 85.5, also a record high. December's reading represented the 15th straight month the index has moved above growth neutral.

According to Bank CEOs, annual cash rents for non-irrigated, non-pasture farmland soared to \$262 from \$218 one month prior to the pandemic in February 2020.

But there were warnings from some bankers. Jeff Bonnett, CEO of Havana State Bank in Havana Illinois, said, "Inflation is real and affecting folks in our service areas."

Confirming the inflation outlook, Steve Simon, CEO of South Story Bank & Trust in Huxley, Iowa, reported, "Yields and prices ended being up over projections for 2021 but it appears land costs and all crop inputs will be up significantly in 2022."

The December farm equipment-sales index soared to 74.1 from 62.1 in November. This is the 13th straight month that the index has advanced above growth neutral and the strongest index recorded since April 2011.

Banking: The December loan volume index expanded to 61.7 from November's 53.2. The checking-deposit index declined to 68.3 from November's 71.0, while the index for certificates of deposit, and other savings instruments slumped to 26.7 from 32.3 in November.

Jim Brown, CEO of Hardin County Savings Bank in Eldora, Iowa, reported, "(Seeing) very strong working capital and net worth gains even from marginal customers."

Only 3.3% of bankers reported that farmers in their area were in financial distress with increased need for borrowing.

Hiring: The new hiring index climbed to a very healthy 72.4 from 67.7 in November. Labor shortages continue to be a significant issue constraining growth for Rural Mainstreet businesses.

Despite recent strong job gains, U.S. Bureau of Labor Statistics data indicate that, compared to its pre-COVID-19 level, Rural Mainstreet has lost 2.5% of its nonfarm employment (non-seasonally adjusted).

Confidence: After declining for five consecutive months, the confidence index, which reflects bank CEO expectations for the economy six months out, rose to 55.2 from 48.4 in November.

Home and retail sales: The home-sales index climbed to 72.4 from November's healthy 65.0. The retail-sales index for December rose to 68.3 from 58.1 in November. Healthy farm prices and federal stimulus spending are having very positive impacts on Rural Mainstreet retail sales and home sales.

The 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 and launched in January 2006.

Below are the state reports:

Colorado: Colorado's Rural Mainstreet Index (RMI) for December declined to 58.7 from November's 64.1. The farmland and ranchland-price index expanded to 88.2 from 83.6 in November. Colorado's hiring index for December dipped to 66.8 from 67.2 in November. Despite recent strong job gains, U.S. Bureau of Labor Statistics data indicate that over the last 12 months, Colorado's Rural Mainstreet has experienced a 1.0% gain in nonfarm employment (non-seasonally adjusted).

Illinois: The December RMI for Illinois climbed to 78.5 from 74.5 in November. The farmland-price index advanced to 92.0 from 85.5 in November. The state's new-hiring index advanced to 71.5 from November's 70.9. U.S. Bureau of Labor Statistics data indicate that over the past 12 months, Illinois' Rural Mainstreet has experienced a 4.4% gain in nonfarm employment (non-seasonally adjusted).

Iowa: The December RMI for Iowa improved to 71.4 from 70.9 in November. Iowa's farmland-price index jumped to 91.4 from November's 84.9. Iowa's new-hiring index for December rose to 70.7 from 69.6 in November. U.S. Bureau of Labor Statistics data indicate that over the past 12 months, Iowa's Rural Mainstreet has experienced a 1.7% gain in nonfarm employment (non-seasonally adjusted). Jim Brown, CEO of Hardin County Savings Bank in Eldora, reported, "Crop yields are amazing for the lack of moisture, except for very few instances depending on type of soil."

Kansas: The Kansas RMI for December slipped to 63.2 from November's 64.1. The state's farmland-price index rose to 89.6 from November's 83.6. The new-hiring index for Kansas climbed to 68.5 from 67.2 in November. U.S. Bureau of Labor Statistics data indicate that over the past 12 months, Kansas' Rural Mainstreet has experienced a 2.3% gain in nonfarm employment (non-seasonally adjusted).

Minnesota: The December RMI for Minnesota fell to a very healthy 82.3 from 83.9 in November. Minnesota's farmland-price index climbed to 95.5 from November's 87.2. The new-hiring index for December rose to 75.8 from 74.3 in November. U.S. Bureau of Labor Statistics data indicate that Minnesota's Rural Mainstreet economy has experienced a very healthy 6.2% gain in its nonfarm employment (non-seasonally adjusted).

Missouri: The December RMI for Missouri increased to 62.0 from 52.5 in November. The farmland-price index climbed to 89.2 from November's 81.5. The state's hiring gauge advanced to 68.0 from November's 62.9. U.S. Bureau of Labor Statistics data indicate that Missouri's Rural Mainstreet economy has experienced a healthy 3.0% gain in its nonfarm employment (non-seasonally adjusted).

Nebraska: The Nebraska RMI for December sank to 71.9 from November's 74.1. The state's farmland-price index climbed to 92.3 from last month's 85.4. Nebraska's new-hiring index improved to 71.8 from 70.8 in November. U.S. Bureau of Labor Statistics data indicate that Nebraska's Rural Mainstreet economy has experienced a very healthy 3.7% gain in its nonfarm employment (non-seasonally adjusted). Jim Stanosheck, CEO of the State Bank of Odell said, "Our corner of the world saw dry conditions with yields about average. Where there was rain, yields were well above average."

North Dakota: The North Dakota RMI for December decreased to 54.3 from 57.8 in November. The state's farmland-price index advanced to 86.8 from 82.7 in November. The state's new-hiring index declined to 65.1 from November's 65.3. U.S. Bureau of Labor Statistics data indicate that North Dakota's Rural Mainstreet has experienced a weak 0.5% gain in its nonfarm employment (non-seasonally adjusted).

South Dakota: The December RMI for South Dakota slumped to 59.9 from 67.5 in November. The state's farmland-price index expanded to 88.6 from 84.2 in November. South Dakota's December hiring index decreased to 67.2 from 68.4 in November. U.S. Bureau of Labor Statistics data indicate that South Dakota's Rural Mainstreet has experienced a solid 1.7% gain in its nonfarm employment (non-seasonally adjusted).

Wyoming: The December RMI for Wyoming fell to 56.5 from 61.9 in November. The December farmland and ranchland-price expanded to 87.5 from 83.2 in November. Wyoming's new-hiring index declined to 65.9 from November's 66.4. U.S. Bureau of Labor Statistics data indicate that Wyoming's Rural Mainstreet has experienced a weak 0.5% gain in its nonfarm employment (non-seasonally adjusted).

KEEP AN EYE ON

U.S. Jobs Report. On Feb. 4, the U.S. Bureau of Labor Statistics releases its jobs report for January 2022. Job gains of less than 100,000 would be bad for U.S. stock prices. It would be good for U.S. Treasury bond prices, and push yields lower.

U.S. Economic Growth. On Jan.27, the U.S. Bureau of Labor Statistics releases its advance estimate of gross domestic product growth for the 4th Quarter of 2021. Anything less than 2.5% annualized and seasonally will be a big disappointment and a drag of U.S. stock prices.

Yield on 10-Year U.S. Treasury Bond. Yield on 10-Year U.S. Treasury Bond. Available continuously at <https://finance.yahoo.com/> Current yield of 1.77% is almost one-third of a percentage point (29 basis points) higher than one-month ago. Look for rising rates on fixed mortgages as this yield heads higher.

STATISTIC(S) OF THE MONTH

43. According to Helsinki-based Centre for Research on Energy and Clear Air (CREA), China will build 43 new coal-fired power plants in 2022. In China's iron and steel sector, 35 million tons of new coal-based ironmaking capacity was announced in first half of 2021 (more than in all of 2020).

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THE BULLISH NEWS

- December U.S. jobs report indicated that the nation added 199,000 (not bad in my judgment) as the unemployment rate fell to 3.9%
- December's purchasing management indices (PMI) for both ISM's national survey and Creighton's Mid-America were in a range indicating healthy manufacturing growth.
- The Case-Shiller national home price index cooled a bit to a still strong growth of 19.1% for the 12 months ending in October.

THE BEARISH NEWS

- U.S. consumer debt rocketed \$40 billion higher in November to a highest on record.
- The U.S. trade deficit jumped 19.4% in November to \$80.2 billion. U.S. goods imports rose by 5.1% to a record high \$254.9 billion for November.
- Rising inflation expectations pushed mortgage rates to their highest level since May 2020.

THE OUTLOOK

The Conference Board (December 15, 2021). "The Conference Board forecasts that US Real GDP growth will rise to 6.5 percent (annualized rate) in Q4 2021, vs. 2.1 percent growth in Q3 2021, and that 2021 annual growth will come in at 5.6 percent (year-over-year). Looking further ahead, we forecast that the US economy will grow by 3.5 percent (year-over-year) in 2022 and 2.9 percent (year-over-year) in 2023. This forecast is an upgrade for growth in Q4 2021, but a downgrade for growth momentum in 2022. The upgrade in Q4 2021 GDP growth is associated with stronger than expected economic activity in October and November. Even with an acceleration in new COVID-19 cases in December (which are largely associated with the Delta variant thus far), GDP growth in Q4 2021 should be stronger than previously expected. However, this strength is likely to moderate in 2022." <https://www.conference-board.org/research/us-forecast/us-forecast>

GOSS (January 2021): **I expect the inflation rate to cool a bit (4.5%) in the second quarter of 2022 **Since the presidential elections, the yield on U.S. long-term Treasury bonds has expanded from 0.83% to 1.77%. I expect that yield to climb by another ¼ % (25 basis points) by the end of Q1 2022. Mortgage rates, which have expanded only marginally will rise by another 25 basis points by the end of Q1, 2022. **Annualized and seasonally adjusted Q1 2022 GDP growth will range between 1% to 2%.

BANKER READING ROOM

Banker Reading Room. ICBA (Q4, 2021). "ICBA will defend the 2017 tax cuts, including the 21 percent corporate rate, the individual rate, the deduction for passthrough income, current taxation of capital gains, and taxation of estates. ICBA will oppose changes to the taxation of "like kind" exchanges, limitations on IRA investments, and new taxes on Subchapter S business income. ICBA is leading a grassroots campaign against these tax increases on community banks."

<https://www.icba.org/our-positions-a-z/current-top-issues>

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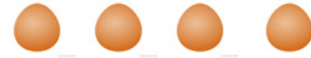
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GOSS EGGS (Recent Dumb Economic Moves)

German Chancellor Angela Merkel, in a parting shot to the nation's citizens, closed three of Germany's last six nuclear power plants last month. Ten years ago, 17 nuclear plants provided approximately 25% of the nation's electricity needs. Not surprisingly, Germany's one-year forward electricity prices soared to €300 (\$338) per megawatt from an average 2010-20 price of €50 (\$56) per megawatt. Even France with 70% of its electric power provided by nuclear plants recognizes Germany's folly by building even more clean energy nuclear plants.



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4 of 5 Goss eggs.