

Welcome to Creighton's July Bank CEO Report covering June survey results. June's overall reading from bank CEOs in 10 Rural Mainstreet States declined to a still very strong reading with the strongest farmland price growth farm equipment sale gains since 2012-13. Ernie

### Federal Government & Federal Reserve Super-Charge Economy: When Does it End?

The U.S. pandemic, beginning in early 2020, ushered in an unmatched flood of federal government overspending, and record Federal Reserve stimulus. With a compliant Congress, the Trump Administration increased an already bloated federal deficit by \$1.22 trillion in one year. Not to be outdone, the Biden Administration expanded the deficit by more than \$2.1 trillion in only six months. During this period of time, the Federal Reserve slashed short term interest rates from 1.75% to 0.0% and purchased \$4.3 trillion of federal debt and mortgage-backed securities in order to reduce long-term interest rates to record lows. These actions increased the money supply by 28.1% and reduced the value of the U.S. dollar by 3.4% during the pandemic. So, what was the outcome?

Inflation and asset bubbles sprouted. The year-over-year consumer price index climbed from a pre-pandemic 2.3% to the most recent reading of 5.0%, well above the Fed's pre-pandemic target of 2%. Additionally, the record high spending, low interest rates and surging inflation have pushed investors into riskier bets. For example, over the course of the pandemic, the Case-Shiller national home price index soared by 14.0%, the S&P stock index rocketed higher by 38.6% to a record level, bitcoins ballooned by 270.1%, and gold increased by 12.6%. Meantime, the overall U.S. economy barely nudged with inflation-adjusted GDP actually down by 0.9%.

So, what's the problem? To quote Eisenhower economist Herb Stein, "If something can't go on forever, it will stop." So what will thwart these Goldilocks investment gains? Higher interest rates as early as Q4, 2021, that's what! The Fed cannot sit idly by as inflation rips through the U.S. economy. Higher Inflation and interest rates will degrade U.S. stock prices forcing stocks to a more reasonable price relative to earnings. Meanwhile, inflation will be supportive of cryptocurrency, gold and silver prices, even as higher interest rates moderate their gains.

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	June - 20	May - 21	June - 21
Area economic index	37.9	78.8	70.0
Loan volume	63.6	59.0	54.9
Checking deposits	77.3	87.9	70.0
Certificates of deposit and savings instruments	51.5	43.9	35.0
Farmland prices	46.8	78.1	75.9
Farm equipment sales	32.8	67.9	71.6
Home sales	57.8	83.3	78.3
Hiring	51.5	72.7	71.7
Retail business	28.8	71.2	70.0
Confidence index (area economy six months out)	43.8	78.8	71.7

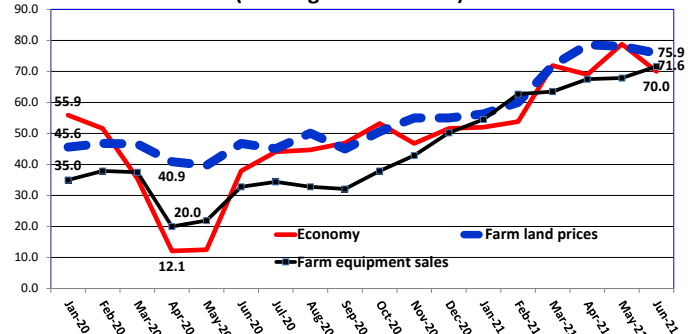
## MAINSTREET RESULTS

### Rural Mainstreet Index Remains in Solid Growth Territory: Only 30% of Bankers See Inflation Gain as Transitory

#### June Survey Results at a Glance:

- Overall index remains at a high level indicating strong growth.
- Despite recent solid job gains, U.S. Bureau of Labor Statistics data indicate that the Rural Mainstreet nonfarm employment remains 2%, below its pre-COVID-19 level. In three states, Kansas, Missouri and Nebraska, current employment exceeds pre-pandemic levels.
- For the first time since 2013, Creighton's survey has recorded nine straight months of farmland prices above growth neutral.
- Survey is tracking the best growth in agriculture equipment sales since 2012.
- Only 30% of bankers expect the current increase in inflation to be transitory.
- More than three-fourths of the bankers think the Federal Reserve should begin raising interest rates before the end of 2021

Rural Mainstreet, Economic Indicators, January 2020 – June 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, July 15.

	Percentage of bankers reporting					
	Strongly Disagree	Disagree	Unknown	Agree	Strongly Agree	
Please evaluate the following statement: "The current uptick in inflation is transitory and growth in consumer prices will return to normal in the coming months."	13.3%	40.0%	16.7%	26.7%	3.3%	
	Percentage of bankers reporting					
	Meeting on June 15-16	Before end of 2021	First half of 2022	Second half of 2022	After 2022	
When should the Federal Reserve begin to taper its \$120 billion monthly purchases of U.S. Treasury bonds and mortgage-backed securities (intended to keep interest rates low)?	20.0%	56.7%	13.3%	6.6%	3.4%	
	Percentage of bankers reporting					
	COVID-19	Labor shortages	Rampant Inflation	Cyber Threats	Downturn in Farm Income	Rising Bank Regulations
Which of the following represents the biggest threat to your bank's successful 2021-22 operations?	4.2%	8.3%	16.7%	20.8%	24.8%	25.2%

### MAINSTREET ON YOUR STREET

For the seventh 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 overall index for June fell to still strong 70.0 from May's record high of 78.8. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Approximately, 46.7% of bank CEOs reported that their local economy expanded between May and June.

Strong grain prices, the Federal Reserve's record-low interest rates, and growing exports have underpinned the Rural Mainstreet Economy. Even so, current rural economic activity remains below pre-pandemic levels.

However, several bankers raised future concerns. Steve Simon CEO of South Story Bank and Trust in Huxley, Iowa, reported, "Continued dry conditions will start to have an effect on markets and crops soon"

Bankers were asked to name the greatest threat to 2021-22 bank operations. Approximately one-fourth identified a downturn in farm income, and an equal one-in-four named rising government regulation as the greatest threats.

Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa, named another concern stating that, "In my view, \$29,000,000,000,000 in total debt with no real plan to reduce that debt, or balance the annual budget is the biggest threat to our economy's success."

He argues that neither political party, nor the Federal Reserve, has engaged in a serious discussion to solve the problem.

**Farming and ranching:** For a ninth straight month, the farmland price index advanced significantly above growth neutral. The June reading slipped to a very strong 75.9 from May's 78.1. This is first time since 2013 that Creighton's survey has recorded nine straight months of farmland prices above growth neutral.

The June farm equipment-sales index rose to 71.6 from 67.9, its highest level since 2012, and up from May's 67.9. After 86 straight months of readings below growth neutral, farm equipment sales bounced into growth territory for the last seven months. This is the best growth in this index since 2012.

**Banking:** The June loan volume index declined to 54.9 from May's 59.0. The checking-deposit index fell to a very solid 70.0 from May's 87.9, while the index for certificates of deposit, and other savings instruments, slumped to 35.0 from 43.9 in May.

More than half, or 53.3% of the bank CEOs judge the current uptick in the consumer price index (CPI) a. Only 30% expect the increase to be transitory.

More than three-fourths of the bankers think the Federal Reserve should begin raising interest rates before the end of 2021.

**Hiring:** The new hiring index slipped to 71.7 from 72.7 in May. Despite recent solid job gains for the region, data from the U.S. Bureau of Labor Statistics indicate that nonfarm employment levels for the Rural Mainstreet economy are down by almost 89,000 (nonseasonally adjusted), or 2%, compared to pre-COVID-19 levels.

**Confidence:** The confidence index, which reflects bank CEO expectations for the economy six months out, decreased to 71.7 from May's 78.8. "Federal stimulus checks, strong grain prices, and advancing exports have supported a healthy confidence number," said Goss.

**Home and retail sales:** The home-sales index declined to 78.3 from May's record high 83.3. The retail-sales index for June dipped to a robust 70.0 from 71.2 in May. The federal stimulus checks are having a very positive impact on Rural Mainstreet retail sales.

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 and launched in January 2006.

#### Below are the state reports:

**Colorado:** Colorado's Rural Mainstreet Index (RMI) for June fell to 71.6 from May's 77.9. The farmland and ranchland-price index decreased to 76.7 from 77.6 in May. Colorado's hiring index for June climbed to 72.5 from 69.1 in May. Despite recent job gains, U.S. Bureau of Labor Statistics data indicate that Colorado's Rural Mainstreet nonfarm employment remains more than 22,500 jobs, or 6.5%, below its pre-COVID-19 level.

**Illinois:** The June RMI for Illinois climbed to 70.6 from 67.8 in May. The farmland-price index sank to 76.2 from 78.8 in May. The state's new-hiring index declined to 72.0 from 74.4 in May. Despite recent solid job gains, U.S. Bureau of Labor Statistics data indicate that Illinois' Rural Mainstreet nonfarm employment remains more than 27,000 jobs, or 2.1%, below its pre-COVID-19 level.

**Iowa:** The June RMI for Iowa sank to 63.7 from 79.9 in May. Iowa's farmland-price index dipped to 72.7 from 78.6 in May. Iowa's new-hiring index for June climbed to 68.5 from 68.4 in May. Despite recent solid job gains, U.S. Bureau of Labor Statistics data indicate that Iowa's Rural Mainstreet nonfarm employment remains more than 15,000 jobs, or 2.3%, below its pre-COVID-19 level.

**Kansas:** The Kansas RMI for June decreased to 71.8 from 83.8 in May. The state's farmland-price index declined to 76.8 from May's 80.6. The new-hiring index for Kansas fell to 72.6 from 76.2 in May. As a result of recent solid job gains, U.S. Bureau of Labor Statistics data indicate that Kansas' Rural Mainstreet nonfarm employment is 400 jobs, or 0.1%, above its pre-COVID-19 level.

**Minnesota:** The June RMI for Minnesota sank to 72.4 from 81.7 in May. Minnesota's farmland-price index fell to 77.1 from 79.5 in May. The new-hiring index for June declined to 72.9 from 75.1 in May. Despite recent solid job gains, U.S. Bureau of Labor Statistics data indicate that Minnesota's Rural Mainstreet nonfarm employment remains more than 7,000 jobs, or 1.4%, below its pre-COVID-19 level.

**Missouri:** The June RMI for Missouri slumped to 72.6 from May's 87.8. The farmland-price index fell to 77.2 from May's 82.6. The state's hiring gauge decreased to 73.0 from 78.2 in May. As a result of recent solid job gains, U.S. Bureau of Labor Statistics data indicate that Missouri's Rural Mainstreet nonfarm employment is more than 1,000 jobs, or 0.3%, above its pre-COVID-19 level.

**Nebraska:** The Nebraska RMI for June sank to 74.3 from May's 88.0. The state's farmland-price index declined to 78.0 from last month's 82.7. Nebraska's new-hiring index rose to 73.8 from 78.3 in May. As a result of recent solid job gains, U.S. Bureau of Labor Statistics data indicate that Nebraska's Rural Mainstreet nonfarm employment is more than 6,000 jobs, or 2.1%, above its pre-COVID-19 level.

**North Dakota:** The North Dakota RMI for June climbed to 56.7 from May's 53.8. The state's farmland-price index sank to 69.2 from 72.0 in May. The state's new-hiring index was unchanged from May at 65.0. Despite recent solid job gains, U.S. Bureau of Labor Statistics data indicate that North Dakota's Rural Mainstreet nonfarm employment remains more than 13,200 jobs, or 8.2%, below its pre-COVID-19 level.

**South Dakota:** The June RMI for South Dakota weakened to 74.0 from May's 85.9. The state's farmland-price index dropped to 77.9 from 81.6 in May. South Dakota's June hiring index declined to 73.7 from 77.2 in May. Despite recent solid job gains, U.S. Bureau of Labor Statistics data indicate that South Dakota's Rural Mainstreet nonfarm employment remains 400 jobs, or 0.2%, below its pre-COVID-19 level.

**Wyoming:** The June RMI for Wyoming dropped to 65.5 from May's 78.4. The June farmland and ranchland-price index climbed to 73.5 from 72.3 in May. Wyoming's new-hiring index fell to 69.4 from May's 73.5. Despite recent solid job gains, U.S. Bureau of Labor Statistics data indicate that Wyoming's Rural Mainstreet nonfarm employment remains more than 10,500 jobs, or 5.4%, below its pre-COVID-19 level.

### KEEP AN EYE ON

**U.S. Inflation Report.** On August 11, the U.S. Bureau of Labor Statistics (BLS) releases its consumer price index (CPI) for July. Recent readings are signaling well above the Federal Reserve's acceptable level (transitory or not!)

**U.S. Jobs Report.** On August 6, the BLS releases its job numbers for July. Another stronger than expected reading (above 700,000) report will very bullish for the U.S. economy.

**Case-Shiller Home Price Index.** On July 27, S&P CoreLogic Case-Shiller will release its home price index for May. The price bubble is inflating at an unsustainable pace.

### STATISTIC(S) OF THE MONTH

**622.2%** According to the Congressional Budget Office, the Biden Administration is expected to increase funding for federal land acquisition by 622.2% from \$18 million in fiscal 2021 to \$130 million in fiscal 2025 (the final year of his current term).

### THE BULLISH NEWS

- U.S. added 850,000 jobs in June which was much better than expected. Leisure & hospitality was the major beneficiary notching a gain of 343,000 jobs.
- June's Purchasing management indices (PMI) of supply managers for both ISM's national survey and Creighton's Mid-America were very strong indicating continuing manufacturing expansion.
- Home prices in April saw an annual gain of 14.6%, up from a 13.3% increase in March, according to the Case-Shiller National Home Price Index. This is the strongest reading in more than 30 years.

### THE BEARISH NEWS

- Creighton's wholesale inflation gauge from the June Mid-America manufacturing supply manager survey soared to another record high.
- For the first 5 months of 2021, the nation's consumer price index has soared by 2.7%. Annualized, that is 6.0% and too high to be ignored by the Federal Reserve.
- In June, the number of long-term unemployed (those jobless for 27 weeks or more) increased by 233,000 to 4.0 million, following a decline of 431,000 in May. This measure is 2.9 million higher than in February 2020.
- The Congressional Budget Office projects that the U.S. budget deficit will exceed \$3.0 trillion for fiscal 2021, and the nation's debt held by the public will total \$23.0 trillion.

### THE OUTLOOK

Conference Board, June 2021. "US View: Prospects for Economic Recovery Continue to Strengthen. Strong macroeconomic indicators are bolstering prospects for economic growth in Q1 2021 and beyond. It is critical, however, that US consumers continue to dip into large pools of savings to finance spending, especially on in-person services. Inflationary pressures related to high demand for durable goods may begin to ebb soon but will likely be replaced by service sector-oriented price pressures. While we expect elevated inflation to be transitory, it does pose a risk to the Federal Reserve's "low for long" monetary policy stance. Finally, while the prospects for the Administrations proposed \$2.3 trillion infrastructure and tax plans remain uncertain it does pose an upside risk to economic growth in 2022."

**FROM GOSS (July 2021):** I expect \*the Federal Reserve (Fed) to begin to taper its purchases of U.S. Treasury Bonds and Mortgage-Backed Securities no later than Q4 2021. \*The Fed to begin raising short-term interest rates in Q2, 2022. \*The CPI to continue to expand at an unsustainable pace. <https://tinyurl.com/6purhz86>

## BANKER READING ROOM

Preserving Tax Cuts. "ICBA will defend the 2017 tax cuts, including the 21 percent corporate rate, the lower individual rates, the deduction for passthrough income, current taxation of capital gains, and the higher estate tax exemption. ICBA will oppose transaction taxes, limitations on the deductibility of FDIC premiums, and other proposals specifically targeting the financial services sector."

<https://tinyurl.com/9hzb4n97>

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## GOSS EGGS (Recent Dumb Economic Moves)

The Federal Reserve continues to purchase \$40 billion per month in mortgage-backed securities (MBS). These purchases artificially lower mortgage rates, stimulate home buying, and have produced the fastest home price increase in 30 years (a bubble). The purchases need to immediately be tapered allowing the market to set rates. 3 of 5 Goss eggs.

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