THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

SEPTEMBER 2022

Welcome to Creighton's September Bank CEO Report covering August survey results. September's overall reading from bank CEOs in 10 Rural Mainstreet States declined below growth neutral for a third straight month with healthy farmland prices, and declining farm equipment sales. Ernie

Student Loan Forgiveness, Who Should Pay? An Alternative Solution

Suppose you go to the mall and purchase a widescreen monitor for a $1,000 paying for it with your newly minted Visa credit card. Unfortunately, upon installation you find it is defective and is not worth the fuel cost to return it to the merchant. Who pays the credit card balance? Will the U.S. taxpayer pick up the tab? NO! The cost will be borne by either the merchant, wholesaler, manufacturer, or you.

That is essentially what has happened to many college graduates who borrowed thousands to earn a college degree that, in many cases, entitled them to nothing more than a job selling jockey shorts at Montgomery Ward (I go back a long way).

Month after month, President Biden has delayed loan repayments for college tuition incurred at colleges ranging from the bottom to the top of the nation's post-secondary institutions. Now he has proposed forgiving loans up to $20,000 for those making less than $125,000, and once again postponed payments for the rest. Estimates of the taxpayer cost of these actions have ranged from $300-$500 billion, depending on the assumptions of the estimation model.

Why are the real beneficiaries, the colleges, sitting on the sidelines cheering on this costly proposal? A study by the New York Federal Reserve (https://tinyurl.com/4da9mc8b) concluded that 60 cents of every federal loan dollar simply landed in the coffers of colleges in the form of higher tuition revenue. As a result of this linkage, colleges have raised tuition five times the rate of inflation since 1980. At the same time, college endowments soared to roughly $691 billion in 2022.

I propose that the cost of the student loan program be shared by the taxpayer, the university, and the student. The program will work very similarly to unemployment pay systems in most states. Each semester, colleges will pay an experienced-based fee that rises and falls with the past students' repayment, or experience rating. Just as construction firms in Nebraska, due to higher historic layoff rates, pay more than four times the unemployment tax rate of non-construction firms, colleges with a history of student loan defaults and delinquencies will pay higher fees into the fund. This program will thus shift a portion of the cost of student loan defaults to those that helped create it---the colleges.

Transferring a portion of the cost of student loan defaults and delinquencies to the colleges will cause the institutions to 1) improve their educational processes to boost potential financial success in the labor market post-graduation, 2) improve the student selection process by including future economic viability of graduating students, 3) charge lower or higher tuition, depending on the salary outlook of particular majors, 4) insure that students receive true value or marketable skills from their studies. In the end, this program will slow the growth in tuition for all (even non-borrowers), and reduce taxpayer costs.

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MAINSTREET RESULTS

Rural Mainstreet Economic Index Falls Below Growth Neutral Again

August Survey Results at a Glance:

- The overall index fell for a fifth straight month, sinking below growth neutral for a third consecutive month.
- After 23 straight months of expanding farm equipment sales, farmer purchases plummeted for the month.
- More than nine of 10 bank CEOs regard Chinese purchases of regional farmland and food processing facilities as a threat to the regional economy.
- On average, more than half, or 52.2%, expect spending and taxes related to the Inflation Reduction Act to increase inflation and add to the federal deficit.

Tables 1 and 2 summarize the survey findings.

Leading Economic Indicators, last 18 months (50.0 = Growth Neutral)

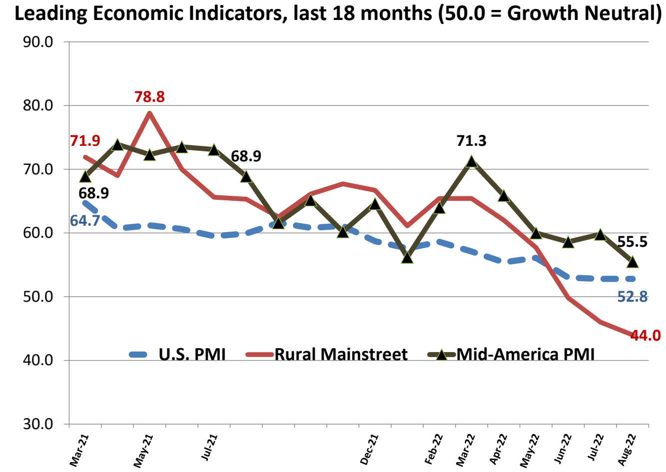

Table 1: Rural Mainstreet Economy Last 2 Months & One Year Ago: (index > 50 indicates expansion)	Aug. 2021	July 2022	Aug. 2022
Area economic index	65.3	46.0	44.0
Loan volume	53.0	72.0	73.9
Checking deposits	68.8	47.9	47.9
Certificates of deposit and savings instruments	34.4	33.3	35.4
Farmland prices	76.6	66.0	60.0
Farm equipment sales	64.7	56.5	45.9
Home sales	84.4	48.0	44.0
Hiring	70.3	60.9	52.0
Retail business	54.7	46.0	48.0
Confidence index (area economy 6 mos. out)	59.7	26.0	38.0

Table 2: The Rural Mainstreet Economy, August 2022				
What will be the economic impact of the *Inflation Reduction Act* about to be signed by the President?	Percentage of bankers reporting			
	Little or no Impact	Increase Inflationary pressures	Increase Federal deficit	Increase Inflationary pressures & increase the Federal deficit
	8.7%	17.4%	21.7%	52.2%
Chinese ownership of U.S. farmland and food processing is:	Percentage of bankers reporting			
	No threat to U.S. farming	A minor threat to U.S. farming	A threat to U.S. farming	A significant threat to U.S. farming
	0.0%	8.3%	70.8%	20.8%
Regarding loan delinquencies at your bank (both farm and non-farm), what has been the change over the past 12 months:	Percentage of bankers reporting			
	Decrease more than 20%	Decrease 1% to 4%	Increase 1% to 3%	
	8.3%	16.7%	58.3%	

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MAIN$TREET ON YOUR $TREET

The Creighton University Rural Mainstreet Index (RMI) fell for the fifth straight month, sinking below growth neutral for a third consecutive month 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 August slumped to 44.0 from 46.0 in July. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral. This was the fifth consecutive decline in the region's overall reading.

"The Rural Mainstreet economy is now experiencing a downturn in economic activity. Supply chain disruptions from transportation bottlenecks and labor shortages continue to constrain growth. Farmers and bankers are bracing for escalating interest rates and falling farm commodity prices," said Ernie Goss, PhD, Jack A. MacAllister Chair in Regional Economics at Creighton University's Heider College of Business.

Bank CEOs were asked their assessment of the Inflation Reduction Act. On average, more than half, or 52.2%, expect spending and taxes related to the act to increase inflation and add to the federal deficit.

Among bankers naming drought as an area of concern, Jim Eckert, CEO of Anchor State Bank in Anchor, Ill., said that "in our area, crops generally look good but could use a rain. There are small pockets which are very dry. Without some timely rains, we will have an early harvest this year."

Farming and ranching: The region's farmland price index for August declined to 60.0 from July's 66.0, marking the 23rd straight month that the index has moved above growth neutral. August's solid reading was the lowest index since February 2021.

According to Jim Rothermich of the Land Talker, the average price per acre of Iowa farmland for the first half of 2022 increased from $12,480 to $13,852.

Bankers were asked about Chinese ownership of farmland and food processing in the region. More than nine of 10 bank CEOs, or 91.7%, regard Chinese purchases of farmland and food processing facilities in the region as a threat to the regional economy.

Farm equipment sales: The August farm equipment-sales index sank to 45.9 from 56.5 in July. After 20 straight months of advancing above growth neutral, the index unexpectedly dropped below the threshold to its lowest level since November 2020.

Banking: The August loan volume index climbed to a strong 73.9 from 72.0 in July. The checking-deposit index was unchanged from July's 47.9, while the index for certificates of deposit and other savings instruments increased to 35.4 from 33.3 in July. "Higher costs of farm inputs and softer agriculture commodity prices supported stronger borrowing from farmers," said Goss.

Even with significant 2022 input price increases over 2021 levels, bankers expect to record a 1.7% decline in farm loan delinquencies over the next 12 months.

Hiring: The new hiring index fell to 52.0 from 60.9 in July. Labor shortages continue to be a significant issue constraining growth for Rural Mainstreet businesses. Despite labor shortages, the Rural Mainstreet expanded non-farm employment by 3.4% over the past 12 months. This compares to an identical 3.4% expansion for urban areas of the same 10 states for the same period of time.

Confidence: The slowing economy, strong energy prices and agriculture input prices constrained the business confidence index to 38.0 in August, up from 26.0 in July.

Home and retail sales: The home-sales index dropped to a weak 44.0 from July's 48.0. The retail-sales index for August improved to a weak 48.0 from July's 46.0. "Rising energy prices and higher interest rates reduced home and retail sales on Rural Mainstreet. This is the lowest home sales index since December 2018," said Goss.

The survey represents an early snapshot of the economy of rural agriculturally and energy-dependent portions of the nation. The Rural Mainstreet Index is a unique index covering 10 regional states, focusing on approximately 200 rural communities with an average population of 1,300. It provides 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 and launched it in January 2006.

Below are the state reports:

Colorado: Colorado's Rural Mainstreet Index (RMI) for August rose to 56.8 from July's 56.7. The farmland- and ranchland-price index climbed to 67.1 from 59.3 in July. Colorado's hiring index for August fell to 60.3 from July's 67.7. Over the past 12 months, U.S. Bureau of Labor Statistics (USBLS) data show that Colorado's Rural Mainstreet Economy experienced a 6.0% increase in non-farm employment, while urban areas in the state gained 4.0% in non-farm employment.

Illinois: The August RMI for Illinois fell to 44.0 from 44.3 in July. The farmland-price index moved down to 61.7 from 66.9 in July. The state's new-hiring index climbed to 61.7 from 61.2 in July. Over the past 12 months, USBLS data show that Illinois' Rural Mainstreet Economy experienced a 3.1% increase in non-farm employment, while urban areas in the state gained 4.7% in non-farm employment.

Iowa: The August RMI for Iowa slumped to 40.1 from 45.1 in July. Iowa's farmland-price index decreased to 63.5 from July's 68.4. Iowa's new-hiring index for August dropped to 55.9 from July's 58.7. Over the past 12 months, USBLS data show that Iowa's Rural Mainstreet Economy experienced a 3.6% increase in non-farm employment, while urban areas in the state gained 2.2% in non-farm employment.

Kansas: The Kansas RMI for August rose to 39.4 from July's 38.7. The state's farmland-price index dropped to 59.7 from July's 64.5. The new-hiring index for Kansas slumped to 51.2 from 58.2 in July. Over the past 12 months, USBLS data show that Kansas' Rural Mainstreet Economy experienced a 2.3% increase in non-farm employment, while urban areas in the state gained 1.9% in non-farm employment.

Minnesota: The August RMI for Minnesota sank to a regional-low 34.8 from 36.6 in July. Minnesota's farmland-price index declined to 57.8 from July's 63.6. The new-hiring index for August plummeted to 48.8 from July's 57.1. Over the past 12 months, USBLS data show that Minnesota's Rural Mainstreet Economy experienced a 1.5% gain in non-farm employment, while urban areas in the state added 3.5% in non-farm employment.

Missouri: The August RMI for Missouri decreased to a regional-high 58.3 from 63.0 in July. The farmland-price index was unchanged from July's 69.7. The state's hiring gauge increased to 63.6 from 63.4 in July. Over the past 12 months, USBLS data show that Missouri's Rural Mainstreet Economy experienced a 7.3% gain in non-farm employment, while urban areas in the state gained 2.0% in non-farm employment.

Nebraska: The Nebraska RMI for August dropped below growth neutral to 47.8 from July's 49.1. The state's farmland-price index decreased to 63.3 from last month's 68.9. Nebraska's new-hiring index sank to 55.6 in August from 63.7 in July. Over the past 12 months, USBLS data show that Nebraska's Rural Mainstreet Economy experienced a 4.1% gain in non-farm employment while urban areas in the state added 1.4% in non-farm employment.

North Dakota: The North Dakota RMI for August sank to 49.2 from 51.7 in July. The state's farmland-price index plummeted to 63.9 from 70.0 in July. The state's new-hiring index dropped to 56.4 from July's 61.2. Over the past 12 months, USBLS data show that North Dakota's Rural Mainstreet Economy experienced a 3.3% gain in non-farm employment while urban areas in the state expanded by 1.8% in non-farm employment.

South Dakota: The August RMI for South Dakota slumped to 37.3 from 38.4 in July. The state's farmland-price index sank to 58.8 from 64.3 in July. South Dakota's August hiring index measured 50.1 compared to 58.0 in July. Over the past 12 months, USBLS data show that South Dakota's Rural Mainstreet Economy experienced a 1.5% gain in non-farm employment, while urban areas in the state added 3.0% in non-farm employment.

Wyoming: The August RMI for Wyoming declined to 44.0 from 46.5 in July. The July farmland- and ranchland-price index decreased to 61.7 from July's 67.8. Wyoming's new-hiring index declined to 53.6 from July's 57.8. Over the past 12 months, USBLS data show that Wyoming's Rural Mainstreet Economy experienced a 2.4% gain in non-farm employment, while urban areas in the state expanded by 1.5% in non-farm employment.

KEEP AN EYE ON

- **U.S. Jobs Report.** On October 7, the U.S. Bureau of Labor Statistics releases its overall job report for September. Another very positive reading (above 300,000 jobs) will "seal the deal" for another Federal Reserve rate hike of 25 basis points (0.25%) in Q4, 2022.
- **Consumer Price Index.** On September 13 and October 13, the U.S. Bureau of Labor Statistics releases the CPI for the month of August and September, respectively. The inflation gauge is expected to continue to weaken to a still too high 7.0% by the end of Q4, 2022 (year-over-year). Anything higher than that will be bad for bonds.
- Crude oil prices. Available continuously at https://finance.yahoo.com/ Current price of $86.14 per barrel is down from $123.70 six months ago. This will be an important factor in the November elections as the headline inflation gauge falls (not the core CPI).

THE BULLISH NEWS

- The U.S. job market added 315,000 jobs in August, as the unemployment rate rose to 3.7% and the labor force participation rate climbed 62.4%.
- According to Jim Rothermich of the Land Talker, in the latest farmland auctions, two auctions in Sioux County generated $26,000 per acre from local farmers.
- The U.S. trade deficit unexpectedly sank by 6% in June as imports declined as exports expanded.

THE BEARISH NEWS

- Workers calling in sick for August 2022 was up by 50% from 2021.
- The value of the U.S. dollar rose to a 37-year high against the British pound, to a 24-year high against the Japanese Yen, to a 20-year high against the Euro, to a 4-year high against the Canadian dollar, and to a 2-year high against the Chinese Yuan. A higher value of the U.S. dollar makes U.S. goods less competitively priced abroad.
- U.S. existing home sales fell in July by 5.9% for the sixth straight month.
- The federal budget deficit sank by $211 billion for July, a 30% decline from July 2021.

THE OUTLOOK

- **National Association of Business Economics** (latest July). "The results of the July 2022 NABE Business Conditions Survey show indications of a slowing U.S. economy," said NABE Vice President Julia Coronado, founder and president, MacroPolicy Perspectives LLC. "A majority of surveyed firms still reports rising sales, but that share declined sharply from last quarter. Rising materials and labor costs are squeezing profit margins at many firms," added NABE Business Conditions Survey Chair Jan Hogrefe, chief economist, Boeing Commercial Airplanes. "The July survey shows more firms reporting declining profit margins than rising margins for the first time since the October 2020 survey. Perceived recession risks are also rising among respondents," continued Hogrefe. "While a small majority still puts the chances of a recession in the next 12 months at less than 50-50, 43% of panelists rate a recession in that time as more likely than not, compared to 13% who held that view in the April survey."

GOSS (September 2022): I expect ***the inflation rate to continue to cool for the rest of 2022. ***GDP growth for Q3 released in October will come in very weak (less than 1%). ***The average 30-year mortgage rate to rise by another one-half of one percentage point by the end of Q3, 2022. ***The prime interest rate to rise from current 6.25% by October 1, 2022.

STATISTIC(S) OF THE MONTH

57 billion cubic meters (bcm). In February 2016, the U.S. began exporting LNG. As of August 2022, the U.S. has more export capacity and has exported more LNG than any other nation. Through June of this year, the U.S. exported 57 bcm of liquified natural gas (LNG), up from 39 bcm for the same period in 2021.

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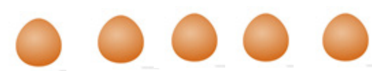
BANKER READING ROOM

"OCC to Cut Smallest Banks' Assessment Fees by 40%," The Office of the Comptroller of the Currency (OCC) will cut assessment fees by 40% on a bank's first $200 million in assets, starting in March, in a move meant to give banks "extra breathing space and capacity to invest and seize opportunities," Acting Comptroller Michael Hsu said Thursday in a speech to the Texas Bankers Association. The regulator will also cut assessment fees by 20% on assets between $200 million and $20 billion. **https://tinyurl.com/2bsktmat**

GOSS EGGS
(Recent Dumb Economic Moves)

BlackRock Investments states, "The BlackRock Foundation which focuses on helping people build financial security and participate in an inclusive transition to a low-carbon future, and our employee engagement programs which equip employees to be agents of social change in their communities." BlackRock, as well as other investment organizations are violating their fiduciary duties. Nineteen state attorneys general argue that this does not square with their duty to seek investor returns. **5 Goss eggs**



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5 of 5 Goss eggs.

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

For ongoing commentary on recent economic developments, visit our blog at:
http://www.economictrends.blogspot.com/

Goss monthly interview at:
https://bit.ly/MidAmericaBCIMarch2022YouTube

Next month's survey results will be released on the third Thursday of the month, September 15, 2022.