

Happy New Year! Thank you for your support over the past 16 years. Welcome to Creighton's January Bank CEO Report covering December survey results. After six straight months with below growth neutral readings, December's overall reading climbed above growth neutral with solid farmland price growth, and expanding farm equipment sales. Ernie

Population Data Show That State & Local Taxes Matter: Low Tax States Win, High Tax States Lose

West Virginia Governor Jim Justice, in his State of the State speech last week, declared that, "We'll be announcing the biggest tax cuts in the history of the state, hands down." According to National Association of State Budget Officers, 49 states including West Virginia, experienced higher revenues than budgeted for the latest fiscal year. Higher reserves and U.S. Census population data showing population losses for high tax states has generated a cult of tax cut zealots across the nation. However, the positive impacts of cuts at the state level can be offset by expansions at the local level. Do 2020-22 population changes indicate that high local taxes likewise stimulate out-migration and lower population growth?

Table 1 below divides the 50 states and D.C. into Quadrants. Quadrant 1 states include those with both state and local taxes as a percent of GDP above the median. As hypothesized, these nine states suffered the greatest loss with a median fall of 5,046 in population, or 0.14%. Furthermore, Quadrant 3 states with state and local taxes as a percent of GDP below the median, as theorized, experienced the greatest population gain at +111,368, or 1.76%. Quadrant 2 states, those with high local taxes but low state taxes, expanded at a lower +5,281, or +0.27%. Quadrant 4 states with local taxes as a percent of GDP below the median, but with state taxes above the median grew population at a median 4,171, or +0.13%.

In a separate statistical modeling (not presented), for each \$1,000 of GDP, it was concluded that each \$50 increase in local taxes reduced population growth, 2020-22, by 3.5%, while the same increase in state taxes reduced population growth by 1.6% for 2020-22.

Quadrant 1 High local & high state taxes Median population Change -5,046, or -0.14%		Quadrant 3 Low local, & low state taxes Median population change +111,368 or +1.76%	
CA	-1.2%	AL	0.85%
HI	-0.7%	AZ	2.50%
NM	-0.2%	GA	1.71%
RI	-0.2%	NC	2.39%
MD	-0.1%	OK	1.38%
NJ	-0.1%	TN	1.82%
IA	0.3%	UT	2.95%
CT	0.8%	WA	0.80%
ME	1.6%		
Quadrant 2 High local & low state taxes Median population Change +5,281 or +0.27%		Quadrant 4 Low local & high state taxes Median population change +4,171 or +0.13%	
NY	-2.14%	WV	-0.91%
IL	-1.60%	MS	-0.61%
LA	-1.32%	MI	-0.35%
OH	-0.35%	MA	-0.20%
PA	-0.17%	WI	-0.06%
OR	-0.11%	ND	-0.03%
AK	0.09%	KS	-0.03%
DC	0.14%	KY	0.11%
NE	0.27%	MN	0.13%
MO	0.39%	VT	0.65%
VA	0.55%	IN	0.65%
CO	0.95%	WY	0.65%
NH	1.21%	AR	1.04%
SD	2.48%	NV	1.99%
TX	2.73%	DE	2.65%
SC	2.94%	MT	3.29%
FL	3.03%	ID	4.86%

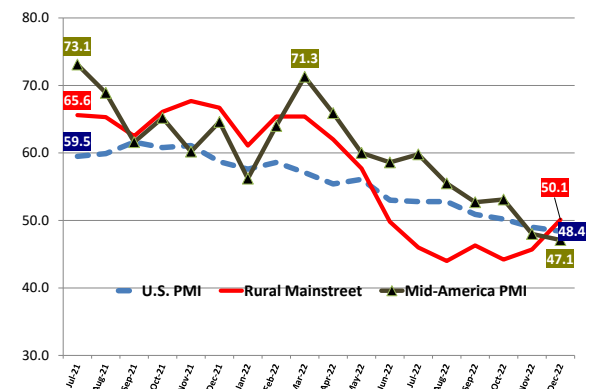
MAINSTREET RESULTS

Rural Mainstreet Economy Surprisingly Expands Slightly: Bankers Expect 2022 to End with Farm Income Up by 10%

December 2022 Survey Results at a Glance:

- For the first time since May of this year, the region's overall reading rose above the growth neutral threshold.
- Only one-third of bank CEOs assess 2023 as a good time to invest in farm operations.
- On average, banking executives expect 2022 regional net farm income to expand by 10.0% in comparison to USDA's projected growth of 13.8% for the nation's farmers.
- On average, almost one-fourth, or 24.7%, of bankers expect high farmland prices to discourage investments in farm operations in 2023.
- Due to cash purchases, more than one-third of bank CEOs report that higher interest rates were not discouraging farm

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



	Dec. 2021	Nov. 2022	Dec. 2022
Area economic index	66.7	45.7	50.1
Loan volume	61.7	65.8	72.1
Checking deposits	68.3	47.7	48.1
Certificates of deposit and savings instruments	26.7	45.5	51.9
Farmland prices	90.0	68.2	65.4
Farm equipment sales	74.1	59.5	60.4
Home sales	72.4	34.8	33.3
Hiring	69.0	49.1	49.1
Retail business	68.3	45.5	45.5
Confidence index (area economy six months out)	55.2	27.3	29.6

Table 3: The Rural Mainstreet Economy, December 2022

Is now a good time to make or increase investments in farm operations?	Percentage of bankers reporting			Yes	
	No-farmland prices too high	No-too much uncertainty Regarding farm income	No-interest rates are too high & rising		
	24.9%	17.3%	24.7%	33.1%	
The USDA recently projected that net farm income for 2022 will be 13.8% above 2021 levels. For farmers in your area, what level of net farm income growth do you project for 2022?	Percentage of bankers reporting				
	1% to 10% decline	Increase 0% to 12%	U.S. average 13% to 14%	Increase 15% to 19%	Increase Over 20%
	11.1%	44.4%	14.8%	22.2%	7.5%
Are rising interest rates negatively affecting the purchase of agriculture equipment for farmers in your area?	Percentage of bankers reporting				
	No, not at all	Somewhat	Yes, but not significantly	Yes and significantly	
	34.6%	46.2%	15.4%	3.8%	

MAINSTREET ON YOUR STREET

After six straight months of below growth neutral readings, the Creighton University Rural Mainstreet Index (RMI) climbed above the growth neutral threshold, 50.0, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: For the first time since May of this year, the region's overall reading in December rose above the growth neutral threshold. The December index did increase to a tepid 50.1 from 45.7 in November. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

The Rural Mainstreet economy continues to experience slow, to no, to slightly negative economic growth. On average, bankers expect 2022 net farm income in the region to expand by 10.0% in comparison to USDA's projected growth of 13.8% for the nation's farmers.

David Steffensmeier, Chairman of First Community Bank in Beemer, Neb., said, "Our area was negatively affected by the dry weather, and crop yields were lower so income will follow the yields."

Farming and ranching: The region's farmland price index declined to 65.4 from November's 68.2. This was the 27th straight month that the index has climbed above 50.0.

On average, almost one-fourth, or 24.7%, of bankers expect high farmland prices to discourage investments in farm operations in 2023.

Jeff Bonnett, CEO of Havana State Bank in Havana, Ill., reported that, "Significant increases to all other input costs projected for 2023 will force farm operators to pay extra attention to the business side of producing a crop."

Farm equipment sales: The farm equipment-sales index climbed to 60.4 from 59.5 in November. The index has risen above growth neutral for 23 of the last 25 months.

This month, bankers were asked if higher interest rates are negatively affecting farmer purchases of agriculture equipment. More than one in three bankers, or 34.5%, reported that rates were not impacting sales, while approximately 19.2% reported that higher interest rates were restricting the purchase of farm equipment.

James Brown, CEO of Hardin County Savings Bank in Eldora, Iowa, said that due to large increases in farmer working capital, there have been a lot of cash purchases of machinery and not much borrowing.

Banking: The December loan volume index rose to a very strong 72.1 from 65.8 in November. The checking-deposit index increased to 48.1 from November's 47.7, while the index for certificates of deposit and other savings instruments expanded to 51.9 from 45.5 in November.

Higher farm input costs, greater farm equipment sales and drought conditions in portions of the region supported strong borrowing from farmers. At the same time, higher interest rates encouraged greater CD purchases by farmers.

Hiring: The new hiring index for December was unchanged from November's 49.1. Labor shortages continue to be a significant issue constraining growth for Rural Mainstreet businesses. Despite labor shortages, Rural Mainstreet expanded non-farm employment by 3.3% over the past 12 months. This compares to 3.2% growth for urban areas of the same 10 states for the same period of time.

Confidence: The slowing economy, strong energy prices, higher borrowing costs and elevated agriculture input costs continued to constrain business confidence index to a very weak 29.6, up from 27.3 in November. Over the past nine months, the regional confidence index has fallen to levels indicating a very negative outlook.

Home and retail sales: The home-sales index sank to a very weak 33.3 from 34.8 in November. This is the seventh straight month that the home-sales index has fallen below growth neutral. An almost doubling of the 30-year mortgage rate over the past year slowed home sales in the region over that time period.

The retail-sales index for December was unchanged from November's weak 45.5. Bankers were pessimistic regarding the economic outlook for the Christmas and holiday buying season as they expect growth at less than 1.0%, or 0.8%, from the 2021 season.

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. The index 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 December expanded to 69.6 from November's 57.9. The farmland- and ranchland-price index sank to 69.1 from 78.8 in November. Colorado's new hiring index for December increased to 62.0 from November's 60.0. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top four exported agriculture products changed by: Beef (-22.1%), Pork (+24.5%), Hides (+5.4%) and Other Feeds (+8.2%).

Illinois: The December RMI for Illinois sank to 46.0 from November's 50.7. The farmland-price index dropped to 65.7 from 69.2 in November. The state's new-hiring index sank to 49.6 from November's 50.7. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top four exported agriculture products changed by: Corn (+50.2%), Soybeans (+102.8%), Distillers Grain (+7.6%) and Pork (+17.7%). Said Jeff Bonnett, CEO of Havana State Bank in Havana: "Grain marketing is always critical but will be even more of a challenge in seeking to 'at least' break even for 2023."

Iowa: Iowa's December RMI increased to 54.2 from 47.0 in November. Iowa's farmland-price index dipped to 69.2 from November's 70.2. Iowa's new-hiring index for December moved upward to 53.4 from November's 51.9. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top five exported agriculture products changed by: Corn (-9.0%), Pork (-10.4%), Beef (+33.8%), Soybeans (+93.2%) and Soybean Meal (-23.8%). Said James Brown, CEO of Hardin County Savings Bank in Eldora: "Break-evens for crops will be 10-15% higher because of input costs but cash rents (will be) relatively stable."

THE MAINSTREET ECONOMIC REPORT

JANUARY 2023

A monthly survey of community bank CEOs

Kansas: The Kansas RMI for December expanded to a weak 49.9 from 43.7 in November. The state's farmland-price index climbed to 67.3 from November's 57.7. The new-hiring index for Kansas rose to 51.6 from 49.6 in November. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top four exported agriculture products changed by: Beef (+25.2%), Soybean (+18.2%), Wheat (+49.2%) and Corn (-0.4%).

Minnesota: The December RMI for Minnesota increased to 42.9 from November's 37.2. Minnesota's farmland-price index slid to 64.4 from 66.0 in November. The new-hiring index for December increased slightly to 48.0 from 46.7 in November. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top three exported agriculture products changed by: Pork (-13.5%), Dairy Products (+6.1%) and Other Feeds (+8.4%).

Missouri: Missouri's December RMI expanded to 63.9 from 55.2 in November. The farmland-price index fell to 73.3 from November's 77.9. The state's new hiring gauge shrank to 59.0 from 61.3 in November. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top four exported agriculture products changed by: Soybeans (+60.2%), Corn (-36.0%), Pork (-33.5%) and Dairy Products (+13.7%).

Nebraska: The Nebraska RMI moved above growth neutral from November's 44.7 to 50.3 for December. The state's farmland-price index rose to 69.5 from 69.2 in November. Nebraska's December new-hiring index increased to 51.9 from 50.7 in November. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top five exported agriculture products changed by: Beef (-17.1%), Corn (-16.4%), Soybeans, (-37.1%), Pork (+38.4%) and Soybean Meal (-33.4%).

North Dakota: North Dakota's RMI for December climbed to 60.4 from November's 54.9. The state's farmland-price index slumped to 71.8 from 73.4 in November. The state's new-hiring index rose to 57.1 from November's 55.9. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top four exported agriculture products changed by: Wheat (+71.1%), Ethanol (+11.7%), Oilseeds (-20.7%) and Pulses (-16.1%).

South Dakota: The December RMI for South Dakota increased to 41.7 from 38.9 in November. The state's farmland-price index declined to 63.9 from November's 66.7. South Dakota's December hiring index measured 47.4, compared to 47.5 in November. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top five exported agriculture products changed by: Ethanol (+213.3%), Pork (+6.9%), Soybean Meal (28.8%), Distillers Grains (-44.9%) and Beef (+55.9%).

Wyoming: The December RMI for Wyoming increased to 49.4 from 47.3 in November. The December farmland- and ranchland-price index decreased to 67.2 from 70.3 in November. Wyoming's new-hiring index slipped to 51.4 from November's 52.0. In the period fiscal Quarter 3, 2022, compared to fiscal Quarter 3, 2021, USDA data show that the state's top three exported agriculture products changed by: Pulses (+79.4%), Condiments & Sauces (-29.2%) and Live Animals (-91.3%).

According to the Case-Shiller Price Index, U.S. home prices fell in October for the fourth straight month.

THE BULLISH NEWS

- Total nonfarm employment rose by 223,000 in December, and the unemployment rate dropped to 3.5%.
- Approximately 439,000 Americans joined the workforce in December (this is a very good sign).
- The trade deficit for November fell from \$77.8 billion in October to \$61.5 billion in November. Due to a weaker U.S. economy, imports dropped by 6.3% for the month.

THE BEARISH NEWS

- According to the Case-Shiller Price Index, U.S. home prices fell in October for the fourth straight month.
- U.S. exports dropped by 2% from October to November due to a cooling global economy.
- The U.S. federal budget deficit was \$249 billion for November 2022. This was a 30% increase from November 2021.

THE OUTLOOK

The Conference Board (December 14, 2022). "The Conference Board forecasts that economic weakness will intensify and spread more broadly throughout the US economy over the coming months with a recession to begin around the beginning of 2023. This outlook is associated with persistent inflation and rising hawkishness by the Federal Reserve. We forecast that 2022 Real GDP growth will come in at 1.9 percent year-over-year, 2023 growth will slow to zero percent year-over-year, and 2024 growth will rebound to 1.7 percent year-over-year." However, we still expect that the US economy will fall into recession soon. We currently expect to see three quarters of negative GDP growth starting in Q1 2023. However, this down turn will be relatively mild and brief, and growth should rebound in 2024 as inflation ebbs further and the Fed begins to loosen monetary policy." <https://www.conference-board.org/research/us-forecast>

GOSS (January 2023): I expect ***the inflation rate to continue to cool (but not fast enough for the Fed) for the first quarter 2023. ***Job additions for January to move below 150,000 with the unemployment rate rising to 3.7% in January. ***The Federal Reserve Open Market Committee will increase short-term interest rates by 25 basis points (0.25%) on February 1 with the prime interest rate to rise from current 7.5% to 7.75% on February 2.

KEEP AN EYE ON

- **U.S. Jobs Report.** On February 3, the U.S. Bureau of Labor Statistics (BLS) releases its overall job report for January. Another soft reading on monthly wage growth such as December's reading of 0.3% will be positive for the inflation outlook, and slow Fed rate hikes.
- **U.S. G.D.P.** On January 26, the U.S. Bureau of Labor Statistics releases its first estimate for 4th Quarter U.S. GDP. The Atlanta Fed estimate is 3.8%. This is too strong for the Federal Reserve Open Market Committee. A much lower value (e.g. 2.3%) would be positive for both bond and equity markets.
- **Case-Shiller Home Price Index.** On Tuesday January 31, S&P Corelogic releases its Case-Shiller home price index for November. A fifth straight month of declining prices will be very bearish for residential housing, and foreshadow even more price declines ahead. October. A fourth straight month of declining prices will be very bearish for residential housing, and foreshadow even more price declines ahead.

BANKER READING ROOM

Three Financial Technology Trends Community Banks Should Consider for 2023. By Tina Giorgia.

“When I attended FinovateFall in September, I was struck by its palpable energy. Not only was it the most well attended Finovate to date with roughly 1,800 attendees and 64 participating companies, it was a widely collaborative conference, converting what had once felt like a competitive environment into one of enablement. What I witnessed was a growing pool of early-stage startups and mid-stage scaleups looking to support community bank needs and that bodes well for how community banks approach innovation. Ultimately, such partnerships must support the regulatory environment under which community banks operate.”

<https://tinyurl.com/bdfsyb97>

STATISTIC(S) OF THE MONTH

5.8% According to JD Power, EVs accounted for **5.8%** of U.S. auto sales in 2022. This is up from 3.2% in 2021. Tesla accounted for roughly 54% of 2022 U.S. EV sales. Chevrolet and Ford accounted for 9.9% and 2.5%, respectively, of U.S. 2022 EV sales.

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For ongoing commentary on recent economic developments, visit our blog at: <http://www.economicstrends.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, Jan. 19, 2023.

GOSS EGGS (Recent Dumb Economic Moves)

The Federal Trade Commission (FTC) proposed a new rule that would ban employee noncompete clauses. The “good” of the ban means that workers can freely switch jobs for higher pay and better working conditions. However, the “bad” of the ban is that it would prohibit companies from requiring workers to reimburse for certain kinds of training should the worker leave the employer. This will have the impact of reducing employer provided training and education designed to increase worker productivity. Three Goss Eggs.



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3 of 5 Goss eggs.