

September
2023

THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

RURAL MAINSTREET RESULTS

Rural Mainstreet Economy Slows in August

Bank CEOs Report Continuing Losses of Deposits

>After 4 straight months of above growth neutral readings, the Rural Mainstreet Index (RMI) slumped to growth neutral, 50.0, in August.

>Farmland cash rents expected to expand by 1.3% over the next year.

>Less than 1/3 of bankers expect a “soft landing” for the economy. Approximately one-third anticipate an economic “hard landing.”

>Bankers reported continuing record low deposits.

>Only 14.8% expect a stronger farm economy one year out. Regional agriculture exports contracted from \$8 billion in the first half of 2022 to \$6.8 billion for the same period in 2023.



Welcome to Creighton’s September Bank CEO Report covering August survey results. The August overall reading from bank CEOs and executives in 10 Rural Mainstreet States fell to growth neutral with solid farmland price growth, but falling farm equipment sales. Ernie Goss.

- Ernie

The 2023 Recession: Delayed or Slayed? Debt Spending and Fed Money Creation Poststponed

Approximately 95% of economists predicted that the U.S. economy would experience a recession in the first half of 2023. And as recently as December 2022, 75% of economists surveyed by the National Association of Business Economics expected a 2023 recession.

Despite the gloomy outlook from naysayers, the U.S. economy added 1.54 million jobs and expanded GDP at an annualized 2.0% pace in the first half of 2023. Placing another nail in the 2023 recession, the Atlanta Federal Reserve’s GDPNow model estimates third quarter GDP growth will come in at an astonishing, and unbelievable 5.8%.

Why the long-face among economists? Were economists wrong, or just early? The yield curve, equal to

long-term interest rates minus short-term interest rates, has now been negative for 15 straight months due to the Federal Reserve (Fed) aggressively raising short interest rates above long-term rates. This is the longest period on record of a negative yield curve without a recession. Since 1955, all 10 recessions have been preceded by an inverted yield curve when short-term rates exceed long term rates.

What caused the postponement? First, the Federal Reserve boosted the nation’s money supply per dollar of GDP from \$0.70 for the quarter before the pandemic to \$0.77 GDP in the second quarter of 2023. Second, the federal government increased spending by an annualized rate of 4.8% in the first half of 2023. Third, consumers increased spending by an annualized rate of 6.2% in the first half of 2023. Despite warning signals in the U.S. office property market, U.S. banks increased commercial real estate loans to over \$3 trillion in Q2, 2023.

But the “pig is in the python” pointing to an economic downturn as early as the final quarter of 2023, or the first quarter of 2024: 1) **Debt Issues**-40 million student borrowers must begin loan repayment beginning October 1; Credit card debt rose by 4.5% between Q1 and Q2 of 2023 to a record high \$1.03 trillion; 2) **Real Estate Issues**-National Association of Realtors (NAR) reported existing home sales fell 2.2% in July from July 2022 with a forecast of a 12.9% drop for 2023 from 2022; the FDIC concluded that “the office sector is particularly vulnerable to deterioration.” 3) **Money Supply Issues**—at its current pace, the Fed will reduce the money supply by 3.1% by the first quarter of 2024.

Based on these economic hurdles, the likelihood of a U.S. recession in Q4, 2023 or Q1 2024 is above 70%. Ernie Goss

Table 1: Rural Mainstreet Economy Last 2 Months & One Year Ago

	Aug. '22	July 23	Aug.'23
Greater than 50.0 indicates expansion			
Area Economic Index	44.0	55.6	50.0
Loan Volume	73.9	75.9	75.0
Checking Deposits	47.9	32.7	30.8
Certificates of Deposit and Savings Instru-	35.4	71.2	69.2
Farmland Prices	60.0	64.6	60.0
Farm Equipment Sales	45.9	50.0	46.0
Home Sales	44.0	55.8	59.3
Hiring	52.0	59.3	51.9
Retail Business	48.0	59.6	51.9
Confidence Index (economy six months out)	38.0	44.4	38.9

BULLISH NEWS

- National Association of Realtors (NAR) data show the median U.S. home price rose 1.9% year-over-year to \$406,700 in July.
- August's jobs report were solid with 187,000 jobs added even as the unemployment rate rose to 3.8% due to the entry of new workers into the labor force.
- Average hourly earnings rise 0.2%; up 4.4% year-on-year (YOY) with the CPI up the same 0.2% for the month and 3.2% for YOY.

BEARISH NEWS

- NAR housing affordability index fell to its lowest level in 38 years.
- The U.S. trade deficit widened by 2% in July to \$65 billion.
- The U.S. budget deficit for this year ending Sept. 30 will be \$2 trillion, or double last year's deficit.
- U.S. credit card debt with over a 20% interest rate rose to a record high of \$1.03 trillion in the second quarter of 2023.

Main\$treest on Your \$street

Overall: The region's overall reading in August fell to 50.0 from July's much stronger 55.6. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.



The overall Rural Mainstreet Index (RMI) sank to a growth neutral reading for August after four straight months of readings above 50.0 according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

This is the fifth consecutive month that the overall RMI has moved at or above growth neutral. However, I expect recent pullbacks in growth to push the Federal Reserve to forgo an interest rate increase at its next meetings on September 19-20.

A large share of bankers support a cessation of rate increases. Said Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa: "In my view, the Federal Reserve should take a long pause on any further increase in interest rates. It's time for a breather."

Farming and ranching land prices: The region's farmland price index dropped to 60.0 from 64.6 in July. This was the 35th straight month that the index has advanced above 50.0.

Farm equipment sales: The farm equipment-sales index for August slumped to 46.0 from July's weak 50.0. This is the fourth time in the past 12 months that the index has fallen below growth neutral. Higher borrowing costs have begun to negatively impact purchases of farm equipment.

Banking: The August loan volume index dipped to a still strong 75.0 from July's 75.9. The checking deposit index sank to 30.8 from 32.7 in July, and the index for certificates of deposits and other savings instruments decreased to a strong 69.2 from 71.2 for July.

Higher short-term interest rates produced by Federal Reserve rate hikes over the

past year continue to pose a significant threat to community banks by expanding the costs of customer deposits while the rates on bank loans have risen little over the same time period.

Hiring: The new hiring index for August fell to 51.9 from July's 59.3. Over the past 12 months, the Rural Mainstreet Economy has expanded jobs by 2.8% compared to a lower 2.0% for urban areas of the same 10 states.

Confidence: Higher interest rates, deposit outflows and a rising regulatory environment continued to constrain the business confidence index to a weak 38.9, down from 44.4 in July. Over the past 12 months, the regional confidence index has fallen to levels indicating a negative outlook.

According to data from the International Trade Association, the region's agriculture exports sank from \$8 billion in the first half of 2022 to \$6.8 billion for the same period in 2023 for a 14.6% slump.

This month, bankers were asked to assess the financial conditions for the farming economy one year from today. Only 14.8% expect a stronger farm economy one year out, while 48.2% anticipate a weaker economy 12 months out.

Regarding the Federal Reserve's interest rate actions, only 29.6% of bank CEOs expect the Fed's steps to achieve its inflation goal while limiting the increase in unemployment (i.e., a soft landing).

Jeff Bonnett, CEO of Havana National Bank in Havana, Ill., said, "A ramp up in consumer loan default (credit cards) and bankruptcy may be in the cards for 2024. This will not make for a 'soft landing' predicted by some optimists."

GOSS EGGS

RECENT DUMB ECONOMIC MOVES

President Biden in his first day in office imposed a leasing moratorium on land in Alaska's Arctic National Wildlife Refuge (ANWR). And this month, the Biden Administration revoked the seven ANWR leases issued by the Trump Administration in January 2021.

The Administration contends that its actions are "based on the best available science and in recognition of Indigenous Knowledge."

Unfortunately, Russia did not sign onto this restriction and continues to drill in the Arctic and deliver oil to China

As in nuclear disarmament, it only works with proper negotiations and agreements with the powers involved. Unsurprisingly, U.S. gasoline prices have risen by \$0.60 this year as Saudi Arabia and Russia take advantage of U.S. pullbacks.

4 OF 5 GOSS EGGS



Home and retail sales: Both home sales and retail sales moved above growth neutral for August. The August home-sales index rose to 59.3 from July's healthy 55.8. Despite higher mortgage rates, an increase in the housing inventory boosted sales across the region.

The retail-sales index for August dropped to 51.9 from July's much stronger 59.6. After an OK quarter two, bankers are getting more optimistic regarding the economic outlook for retail sales for the third quarter.

Below are the state reports:

Colorado: Colorado's RMI for August dropped to 53.2 from 65.7 in July. The farmland price index for August declined to 64.3 from July's 66.4. The state's new hiring index was 58.0, down from July's 61.9. According to data from the International Trade Association, Colorado's agriculture exports expanded from \$52 million in the first half of 2022 to \$62 million for the same period in 2023, 19.2% growth.

Illinois: The August RMI for Illinois fell to 55.6 from July's 59.0. The farmland-price index decreased to 60.5 from 64.5 in July. The state's new-hiring index decreased to 53.2 from 59.6 in July. According to data from the International Trade Association, Illinois' agriculture exports expanded from \$1.47 billion in the first half of 2022 to \$2.53 billion for the same period in 2023 for 71.6% growth. Jeff Bonnett, CEO of Havana National Bank in Havana said, "It will be interesting to see what impact the student loan repayment startup in October (after a 3.5 year break due to COVID relief) will have on the already struggling economy."

Iowa: Iowa's August RMI dipped to 53.7 from 54.1 in July. Iowa's farmland-price index dropped to 59.9 from July's 63.1. Iowa's new-hiring index for August sank to 52.6 from 57.9 in July. According to data from the International Trade Association, Iowa's agriculture exports contracted from \$1.25 billion in the first half of 2022 to \$871 million for the same period in 2023 for a 30.2% slump. "The responses regarding the condition of farm financial well-being and prices are dependent on the extent of the drought conditions and the ultimate yields on crops this year," said James Brown, CEO of Hardin County Savings Bank in Eldora.

Kansas: The Kansas RMI for August sank to 51.1 from July's 55.2. The state's farmland-price index declined to 59.2 from 63.4. The new-hiring index for Kansas advanced to 59.0 from July's 58.3. According to data from the International Trade Association, Kansas' agriculture exports contracted from \$1.30 billion in the first half of 2022 to \$642 million for the same period in 2023 for a 50.5% slump.

Minnesota: The August RMI for Minnesota sank to 47.7 from July's 53.8. Minnesota's farmland-price index expanded to 63.5 from 63.0 in July. The new-hiring index for August fell to 50.5 from 57.8 in July. According to data from the International Trade Association, Minnesota's agriculture exports contracted from \$826 million in the first half of 2022 to \$589 million for the same period in 2023 for a 19.2% slump.

Missouri: The state's August RMI dropped to 37.5 from 42.7 in July. The farmland-price index dropped to 55.4 from 59.9 in July. The state's new hiring gauge slumped to 46.9 from 53.9 in July. According to data from the International Trade Association, Missouri's agriculture exports contracted from \$671 million in the first half of 2022 to \$627 million for the same period in 2023 for a 6.6% slump.

Nebraska: The Nebraska RMI fell to a solid 54.8 from 60.5 in July. The state's farmland-price index for August dropped to 60.2 from 64.9 in July. Nebraska's August new-hiring index declined to 53.0 from July's 60.1. According to data from the International Trade Association, Nebraska's agriculture exports contracted from \$625 million in the first half of 2022 to \$342 million for the same period in 2023 for a 45.2% slump.

North Dakota: North Dakota's RMI for August dropped to 52.1 from 61.7 in July. The state's farmland-price index plummeted to 62.3 from 85.3 in July. The state's new-hiring index declined to a solid 55.5 from July's 60.6. According to data from the International Trade Association, the state's agriculture exports expanded from \$452 million in the first half of 2022 to \$454 million for the same period in 2023 for 0.5% growth.

South Dakota: The August RMI for South Dakota slumped below growth neutral to 43.3 from July's 49.0. The state's farmland-price index declined to 57.0 from 61.7 in July. South Dakota's August new hiring index declined to 48.9 from 56.1 in July. According to data from the International Trade Association, The state's agriculture exports expanded from \$51 million in the first half of 2022 to \$71 million for the same period in 2023 for 39.9% growth.

Wyoming: The state's RMI was unchanged from July's 55.5. The August ranchland-price index dropped to 60.4 from 63.5. Wyoming's new-hiring index declined to 50.2 from July's 58.4. According to data from the International Trade Association, Wyoming's agriculture exports contracted from \$5 million in the first half of 2022 to \$3 million for the same period in 2023 for a 26.5% slump



KEEP AN EYE ON

Retail Sales. On Sept. 14 and Oct. 17, the U.S. Census releases retail sales for Aug. and Sept., respectively. An important gauge of the economic healthy of consumers. A fall or growth less than 0.2% will be a concern.

Employment report. On Oct. 6, the U.S. BLS releases its job report for Sept. A weaker reading (i.e., below 100,000) would support a cease fire (no rate hike) at the Fed's Nov. meeting.

Consumer Price Index (CPI) On Oct. 13, the U.S. BLS releases the CPI for Sept. A monthly gain of more than 0.2% will support a Fed rate hike at their Oct. 31/Nov. 1 meetings.

STATISTIC(S) OF THE MONTH

45 to 1

According to the Fall 2022 issue of the Independent Review, there are 45 registered Democrats to 1 Republican in economic leadership positions at the Board of Governors of the Federal Reserve.

THE OUTLOOK

NATIONAL ASSOCIATION OF BUSINESS ECONOMICS. "More than two-thirds of NABE Policy Survey panelists are at least somewhat confident that the Federal Reserve will achieve a 'soft landing' for the economy, even with the increases in the federal funds target interest rates over the past year," said NABE President Julia Coronado, president and founder, MacroPolicy Perspectives LLC. "However, 20% of panelists believe that the U.S. economy is currently in a recession or will enter a recession in 2023."

"Nearly three-fourths of panelists agree that monetary policy is 'about right,'" added NABE Policy Survey Chair Mervin Jebaraj, University of Arkansas. "However, most panelists do not expect inflation to subside until at least next year, and nearly three-fourths of respondents believe it is likely or very likely that inflation will be above 3% through the end of 2023. <https://ti-nyurl.com/6t3cz356>

Goss: I expect: ***The Federal Reserve Open Market Committee to hold short-term interest rates at their next meetings on September 19/20, but to raise rates by 25 basis points (0.25%) at its Oct/Nov 31/1 meetings. ***A significant credit crunch in the commercial real estate and loan market in Q3, 2023. Loan rollover to higher rates will be too painful for firms. ***Saudia Arabia will continue to cut oil production putting upward pressure on prices. .

BANKER READING ROOM

"State-Owned Public Banks,"

Infrastructure Bank.

>"ICBA opposes the formation of new public banks or other types of public retail financial service providers, whether they are owned by states, municipalities, the United States Postal Service (USPS), or any other federal or quasi-federal instrumentality."

>"Such banks would directly compete with community banks, diverting deposits from local communities and create undue taxpayer risk. Financial services are best provided in a competitive, private, and free marketplace that openly and efficiently benefits customer."

>ICBA opposition extends to the creation of special purpose banks to service the cannabis industry or a National

<https://www.icba.org/our-positions-a-z/state-owned-public-banks>

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Twitter: @ErnieGoss

For historical data and forecasts, visit our website:

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

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

Goss monthly interview at:

<https://bit.ly/MidAmericaBCIJune2023YouTube>

This month's survey results will be released on the third Thursday of the month, August 17, 2023



Economic Indicators for last 18 months: U.S., Rural Mainstreet & Mid-America

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

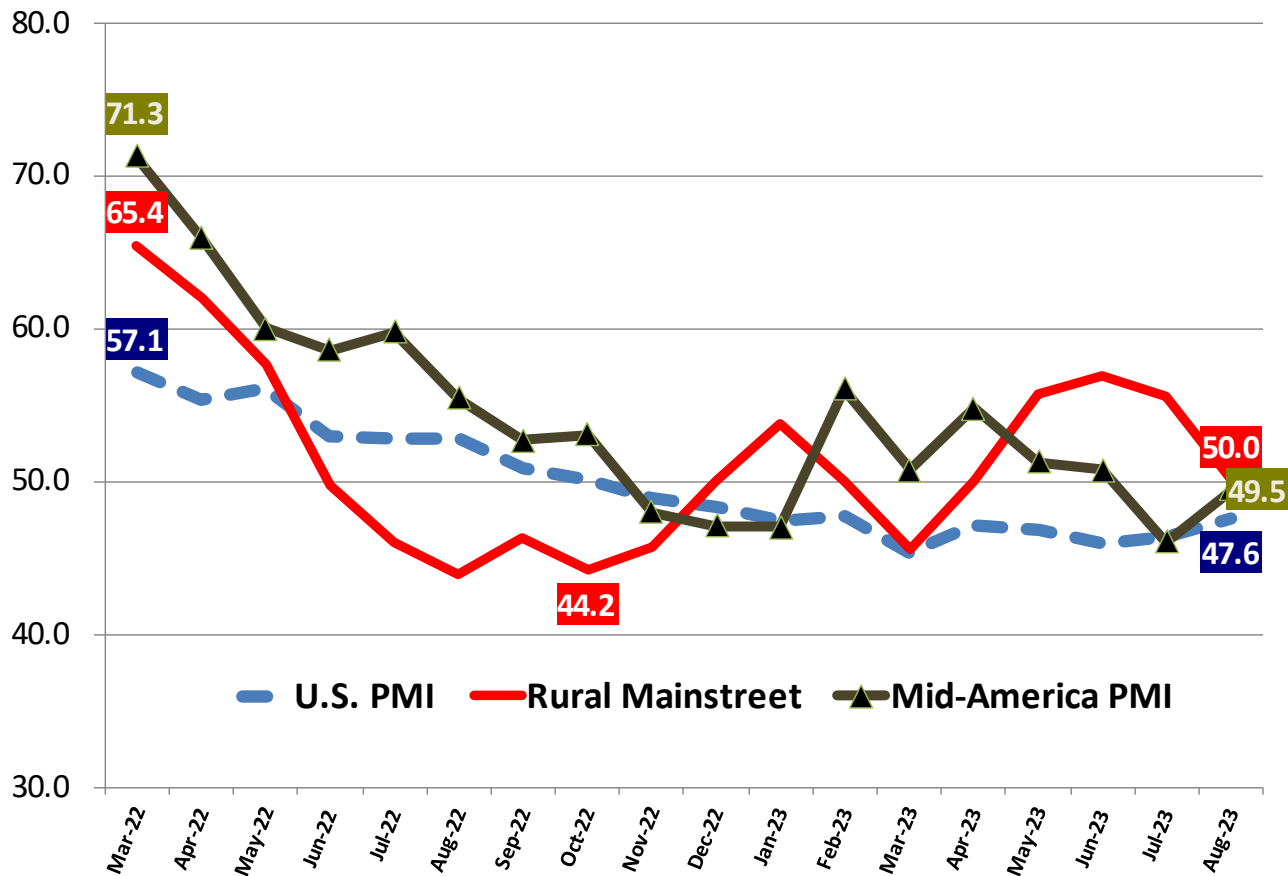


Table 2: The Rural Mainstreet Economy, August 2023

	Percentage of Bankers Reporting				
	Much Weaker	Weaker	No Change	Stronger	Much Stronger
A year from now, what do you expect farm financial conditions to be?	0.0%	48.2%	37.0%	14.8%	0.0%
	Percentage of Bankers Reporting				
	Decrease 1% to 5%	No Change	Increase 1% to 5%	Increase 6% to 9%	Increase More Than 9%
What change in cash rents do you expect for grain land over the next year?	7.4%	51.7%	33.5%	7.4%	0.0%
	Percentage of Bankers Reporting				
	No Landing (Current Pace)	Soft Landing (1% to 2.5%)	Bumpy Landing (0% to 0.9%)	Hard Landing -3.0% to 0%	Crash Landing (Downturn Greater Than -3%)
What impact on growth do you expect from Federal Reserve rate hikes?	0.0%	29.6%	37.0%	33.4%	0.0%