

Welcome to Creighton's June Bank CEO Report. May results from bank CEOs in 10 Rural Mainstreet States moved slightly higher from April's record low. Ernie

An Economic Recovery? If so, What Is the Shape? V, W, or Nike-Swoosh

The May U.S. jobs report indicated that the nation's economy added 2.5 million jobs, the highest monthly addition on record. This news emboldened the optimists who envisioned a V-shaped recovery, and dampened the pessimists that foresaw a W-shaped economic rebound. Other recent economic indicators support an economic recovery somewhere between the extremes, a Nike Swoosh, which would be a sharp downturn followed by a slow recovery.

1) **A V-Shaped Recovery:** Record federal deficit spending via the CARES Act, and the Federal Reserve's support for ultra-low short and long-term interest rates, are punishing savers and rewarding spenders. Furthermore, the ending of the lockdown of most state economies is pushing consumers to spend a share of their pent-up demand. The biggest stimulus for the labor market will come at the end of July when the federal government's \$600 weekly support for jobless workers receiving state unemployment benefits. U.S. equity markets are pricing in an economic revival with expanding business profits indicative of a "V."

2) **A Nike-Swoosh Shaped Rebound:** Even after adding 1.2 million jobs in May, the nation's leisure and hospitality industry has shed 7.0 million employees since covid-19. Contrary to most recessions, this one was led by the consumer and there is little evidence from consumer spending data of a return to pre-covid spending levels. State and local regulations have limited most businesses in this industry to approximately 50% of their pre-covid-19 capacity.

Compared to pre-covid-19 levels, U.S. bond yields at roughly half their yields, and gold prices up more than 7%, both safe-haven stashes for risk averse investors, continue to indicate that investors remain very, very cautious about the U.S. economy.

U.S. exports and imports both posted their largest monthly decreases on record as imports fell 13.7% between March and April and exports plummeted 20.5% during the same period of time. These are the largest declines since record-keeping began in 1992, and will continue to be a drag on U.S. economic growth.

3) **A W-Shaped Recovery, Recession Revisit:** Rising U.S. covid-19 infection and death rates would put a dagger in the heart of any economic rebound. Growth based on federal government deficit spending and Federal Reserve's ultra-low interest rates is not sustainable. The U.S. and global consumers must return to work and spending. Autumn state economic lockdowns will guarantee a return to a recession as the economy reaches the top of the V.

MAINSTREET RESULTS

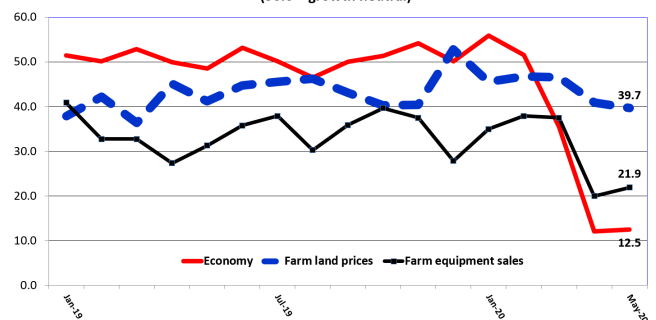
Rural Mainstreet Index Inches Up from April's Record Low: Three of Four Banks Restructuring Farm Loans

May Survey Results at a Glance:

- Overall index advances slightly from April's record low.
- Almost three fourths of bankers have restructured farm loans to deal with weak farm income.
- Bank CEOs expect farm loan defaults to expand by only 5.4% over the next 12 months.
- Fully 100% of bankers gauged the federal Paycheck Protection Plan (PPP) as successful, and more than one of five bank CEOs support expansion of PPP.
- Business confidence sinks from April's very pessimistic outlook.

Tables 1 and 2 summarize the survey findings. This month's survey results will be released on the third Thursday of the month, June 18.

Rural Mainstreet, Economic Indicators, January 2019 – May 2020 (50.0 = growth neutral)



	May-19	April-20	May-20
Area economic index	48.5	12.1	12.5
Loan volume	79.7	75.8	72.2
Checking deposits	42.4	65.6	86.1
Certificates of deposit and savings instruments	51.5	48.4	48.6
Farmland prices	41.2	40.9	39.7
Farm equipment sales	31.3	20.0	21.9
Home sales	63.2	35.9	48.6
Hiring	61.8	9.4	17.1
Retail business	44.1	4.5	11.1
Confidence index (area economy six months out)	38.2	27.4	22.1

Table 2: The Rural Mainstreet Economy, May, 2020

	Rejected higher % of farm loans	Percentage of bankers reporting			
		No change	Reduced size of farm loans	Increased collateral requirements	Restructured farm loans
Which of the following has been your bank's response to weak farm income (click all that apply):	5.4%	8.1%	8.3%	48.7%	73%
	Unsuccessful	Minor success	Success but no expansion	Successful and should be expanded	Very successful and should be expanded
The federal Paycheck Protection Plan (PPP) was:	0.0%	2.7%	75.7%	16.2%	5.4%
	Decline	Unchanged	Rise (1% to 9%)	Rise (10% to 20%)	
Regarding farm loan defaults in your area over the NEXT 12 months, do you expect defaults to:	0.0%	18.9%	67.6%	13.5%	

MAINSTREET ON YOUR STREET

The Creighton University Rural Mainstreet Index (RMI) increased slightly from April's record low. According to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy, May's reading represented the third straight month with close to record lows.

Overall: The overall index for May increased to 12.5 from April's record low 12.1 but down significantly from March's weak 35.5. The index ranges between 0 and 100 with a reading of 50.0 representing growth neutral.

Since this time last year, livestock and grain prices have sunk by 19.1% and 4.7%, respectively. Accordingly, approximately 73.0% of bankers reported restructuring farm loans. As a result of the restructuring bank CEOs expect farm loan defaults to expand by only 5.4% in the next 12 months.

Jeff Bonnett, president of Havana National Bank in Springfield, ILL expects the Rural Mainstreet economy to be up six months from now if the covid-19 lockdown has ended.

Farming and ranching: Farmland prices continue to slide. May's reading fell to 39.7 from April's 40.9. This is the 77th time in the past 78 months the index has been below growth neutral.

The May farm equipment-sales index increased slightly to 21.9 from 20.0 in April. This marks the 80th month straight month that the reading has remained below growth neutral 50.0.

Donald Vogel, president and CEO of Farmers National Bank in Prophetsville, ILL, "Beginning to have a rain pattern (too much) similar to 2019."

Banking: Borrowing by farmers expanded for May, but at a slower pace than in April. The borrowing index slipped to 72.2 from April's 75.8. The checking-deposit index soared to 86.1 from April's 65.6, while the index for certificates of deposit and other savings instruments increased to 48.6 from 48.4 in April.

This month bankers were asked to assess the Paycheck Protection Plan (PPP). Fully 100% of bankers gauged the federal Paycheck Protection Plan (PPP) as successful, and more than one of five bank CEOs support PPP expansion.

Said Lonnie Clark president of the State Bank of Chandler, Chandler, Minn. "Our farmers are taking the brunt of this and those with a negative Schedule F and no W-3 got no help from the PPP."

James Brown, CEO of Hardin County Savings Bank in Eldora, Iowa said, "I think the community banks in the Midwest should be very proud of the number of small businesses we helped in the PPP program".

According to recently released U.S. Court data calculated by the Farm Bureau, Chapter 12 U.S. family farm bankruptcies for the 12-month period ending March 2020 rose to 627 filings, a 23% increase from the previous 12 months. While this is well below the filings in the 1980s, it still raises concerns for rural communities across the U.S.

Over the 12-month period ending in March 2020, a net increase of 41 of the bankruptcies were in the Rural Mainstreet region. Increases by state were: Iowa +23, Nebraska +22, South Dakota +7, and Minnesota +5. Reductions by state were: North Dakota -10, Kansas -4, Colorado -1, and Wyoming -1.

Rural Mainstreet Bank CEOs expect farm loan defaults to expand by only 5.4% over the next 12 months. Almost three fourths of bankers have restructured farm loans to deal with weak farm income.

Hiring: The employment gauge rose to a frail 17.1 from April's record low 9.4.

Confidence: The confidence index, which reflects bank CEO expectations for the economy six months out, sank to 22.1 from April's 27.4. Weak agriculture commodity prices, and layoffs have decimated economic confidence among bankers.

Home and retail sales: The home-sales index increased to 48.6 from April's 35.9. The retail -sales index for May expanded to a frail 11.1 from April's record low 4.5. U.S. March retail sales suffered their biggest one month decline in three decades. The retail shutdown from covid-19 devastated the region's retailer.

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.

Below are the state reports:

COLORADO

Colorado's Rural Mainstreet Index (RMI) for May fell to 9.8 from April's regional high of 13.3. The farmland and ranchland-price index sank to 38.4 from 40.9 in April. Colorado's hiring index for May sank to 6.5 from April's 12.5. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state's insured unemployment rate rose from 0.8% to 8.6%.

ILLINOIS

The May RMI for Illinois dipped to 8.7 from 8.9 in April. The farmland-price index decreased to 38.0 from April's 39.4. The state's new-hiring index slumped to 2.7 (0.0 indicates that all bankers surveyed reported declines in employment) from last month's 6.3. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state's insured unemployment rate rose from 2.1% to 11.8%. Jim Eckert, president of Anchor State Bank in Anchor, Illinois, reported, "Illinois Governor Pritzker's lock down of the entire state due to Wuhan China virus problems in Chicago and Cook County have badly damaged Illinois' economy. Down state

businesses have been badly hurt and many will not survive this prolonged “martial law lite.”

IOWA

The March RMI for Iowa rose to 8.2 from March’s regional low 7.1. Iowa’s farmland-price index dropped to 37.9 from April’s 38.8. Iowa’s new-hiring index for May climbed to 19.4 from April’s regional low of 4.2. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 2.3% to 11.7%.

KANSAS

The Kansas RMI for April rose to 9.2 from April’s 8.9. The state’s farmland-price index slumped to 38.1 from 39.4 in April. The new-hiring index for Kansas wilted to 3.4 from 5.7 in April. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 0.8% to 8.8%.

MINNESOTA

The May RMI for Minnesota increased to 14.2 from April’s 12.0. Minnesota’s farmland-price index climbed to 41.2 from April’s 40.5. The new-hiring index for May expanded to 15.1 from April’s 8.2. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 2.4% to 14.7%.

MISSOURI

The May RMI for Missouri rose to 15.3 from April’s 11.3. The farmland-price index increased to 43.2 from 40.3 in April. Missouri’s new-hiring index for May climbed to 11.2 from April’s 6.1. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 1.1% to 8.8%.

NEBRASKA

The Nebraska RMI for May slipped to 10.0 from April’s 10.1. The state’s farmland-price index slipped to 38.5 from last month’s 39.8. Nebraska’s new-hiring index plunged to 7.2 from April’s 14.5. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 0.5% to 7.1%.

NORTH DAKOTA

The North Dakota RMI for May slumped to 11.4 from 11.9 in April. The state’s farmland-price index declined to 38.9 from 40.4 in April. The state’s new-hiring index moved upward to 11.7 from April’s 7.6. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 1.4% to 8.7%.

SOUTH DAKOTA

The May Rural Mainstreet Index (RMI) for South Dakota climbed to a very weak, but regional high of 19.3 from April’s 13.2. The state’s farmland-price index increased to 41.6 from April’s 40.9. South Dakota’s new-hiring index contracted to 12.1 from March’s 49.4. Between the first week of January 2020 to the first week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 0.7% to 5.7%.

WYOMING

The May RMI for Wyoming inched up to 11.6 from April’s 11.5. The May farmland and ranchland-price index fell to 39.0 from 46.5 in April. Wyoming’s new-hiring index increased to 12.3 from April’s 6.4. Between the first week of January 2020 to the first

week of May, U.S. Department of Labor reported that the state’s insured unemployment rate rose from 1.2% to 6.5%.

THE BULLISH NEWS

- The nation added 2.5 million jobs and the unemployment rate fell to 13.3% for May. This is very good news, but it is too early to pop the Champagne.
- Between January 2, 2020 and June 8, 2020, on average NASDAQ stocks advanced by 8.7% compared to a decline of only 1.2% for S&P stocks, and fall of less than 4.3% for Dow 30 stocks.
- The 2019 U.S. trade deficit fell by 1.7% to \$616.8 billion. However, the trade deficit usually sinks during a U.S. economic slowdown.
- Both Creighton’s and ISM’s manufacturing PMIs are increasing, but remain in a negative range.

THE BEARISH NEWS

- Covid-19 is hurting U.S. housing supply. The number of privately-owned housing units authorized by new building permits for the month of April fell to just over 1 million, a decline of 21% from 1.3 million, the revised number for March, and is 19.2% lower than the number of permits for the same month last year.
- Every U.S. metropolitan area’s April unemployment rate increased from March’s reading.
- U.S. exports and imports both posted their largest monthly decreases on record amid coronavirus-related shutdowns around the world. Imports fell 13.7% in April from March, and exports dropped 20.5%, the largest declines since record-keeping began in 1992.

THE OUTLOOK

National Association for Business Economics (NABE):

SUMMARY: “NABE Outlook Survey panelists expect a 5.6% decline in inflation-adjusted gross domestic product from the fourth quarter of 2019 to the fourth quarter of 2020,” said NABE President Constance Hunter, CBE, chief economist, KPMG. “Panelists expect the largest decline, 33.5%, annualized, quarter-over-quarter, in the second quarter of the year. These decreases reflect the impact of the COVID-19 pandemic.” “The NABE panel remains decidedly pessimistic about the second quarter of the year, as 80% of participants view risks to the outlook tilted to the downside,” added Outlook Survey Chair Eugenio Aleman, economist, Wells Fargo Bank. 2020 he sees the economy growing 0.4%, compared with a prior growth estimate of 1.2%.

FROM GOSS: (**Contrary to NABE, I do not expect GDP economic rebound until 2021. Too few states and communities are “returning to work”. **Job growth for August-September 2020 will be very strong with the end of the \$600 weekly federal unemployment compensation at the end of July. **The U.S. economic recovery will not resemble a V, or even a U. Unfortunately, it will look more like a Nike swoosh.

KEEP AN EYE ON

- U.S. BLS's July jobs report for June. On July 2, the BLS releases the number of jobs lost or gained for June. Another positive reading will be very bullish for U.S. stocks and bearish for the U.S. bond market.
- U.S. Bureau of Labor's weekly continuing claims data. Released every Thursday, this is the earliest reading on the U.S. and state labor markets. The level of unemployed will likely move lower in the weeks ahead as the first-time claims continue to decline. .
- Yield on 10-Year U.S. Treasury bond. Find instantaneously, at <https://finance.yahoo.com>. Watch for this yield to rise back above 1.5% to signal coronavirus impacts waning. Right now, that yield is pointing to less, but still high, U.S. economic risks.

STATISTICS OF THE MONTH

\$1,000 AND \$2,200. According to a recent NBER study, a New York couple with four children would lose \$2,200 in cash benefits and food aid for earning an additional \$1,000.

<https://www.nber.org/papers/w27164>

BANKER READING ROOM

"Tell Congress: Help Community Banks Serve Rural America." Legislation has been introduced in both the House and Senate that will allow community banks to help farmers remain viable in a sometimes-challenging environment. It exempts interest on loans--secured by agricultural real estate--from taxable income, giving lenders more flexibility to work with farmers, ranchers and rural homeowners and providing lenders with a strong incentive to continue to make these loans. The bill helps level the competitive environment for community banks by providing similar tax benefits already enjoyed by other lenders in rural communities. Please review the letter and talking points and ask your members of Congress to support rural America and the community. banks who serve them by cosponsoring the Enhancing Credit Opportunities in Rural America Act (the ECORA Act, H.R. 1872 and S. 1641). Thank you for your support.

<https://tinyurl.com/y86y9lh2>

GOSS EGGS (Recent Dumb Economic Moves)

"I just spoke to my brother-in-law who lives near Buffalo, NY. He said his son Ben lost his job at his college fitness center due to the school's shutdown. He worked about 20 hours/week during the school year at \$10/hour. Out of curiosity he filed for unemployment benefits and was approved. He now 'makes' \$800/week and has taken up golf and purchased a new set of clubs. In light of this very rational behavior, today's jobs report was beyond fantastic. While the extra **\$600/week** will eventually run out, so far, in his mind, it's truly been 'The Summer of Ben.' What a horrible lesson to learn." From my Creighton colleague and economics professor, Tim Bastian.

FOLLOW ERNIE

Follow Ernie Goss on [Twitter www.twitter.com/erniegoss](https://twitter.com/erniegoss)

For historical data and forecasts, visit our website at: www.creighton.edu/economicoutlook/newsletter/

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