

JULY  
2023

# THE MAINSTREET ECONOMIC REPORT

A monthly survey of community bank CEOs

## RURAL MAINSTREET RESULTS

Rural Mainstreet Economy Expanding: Bankers See Federal Reserve Rate Hikes as Greatest Challenge

June 2023 Survey Results at a Glance

- June's overall reading, the Rural Mainstreet Index (RMI), rose above growth neutral for the month to its highest level since May 2022.
- Bank CEOs ranked Federal Reserve rate hikes as the greatest challenge in the 12 months ahead with rising bank regulations a distant second.
- More than half of bankers reported that higher interest rates were impairing farm equipment purchases.
- Farm equipment sales declined for only the third time in the past 31 months.
- On average, bankers expect farm loan defaults to expand less than 1% over the next 12 months.
- See Table 1 for summary



Welcome to Creighton's July Bank CEO Report covering June survey results. The June overall reading from bank CEOs and executives in 10 Rural Mainstreet States rose to its highest level since May 2022 with solid farmland price growth, and a pullback in farm equipment sales. Ernie Goss.

## Cancelling Student Debt Fattens Federal Debt and Tuition: An Alternative Solution

Over the next several months, the Biden Administration will attempt to circumvent the Supreme Court's ruling against his executive order to liquidate roughly one-fourth, or \$400 billion to \$500 billion, of student debt. By singling out student debt from other forms of debt, the Biden Administration is producing unacceptable outcomes. As a result of uncertain federal policy, the U.S. Department of Education reported almost 3 million student borrowers were in default status at the end of 2021.

Not only have equivocating policies increased moral hazard (i.e. students taking excessive financial risks), it has contributed to income inequality over the past five decades as college educated incomes rose at a much faster pace than workers that did not earn a two-year, or four-year degree.

For example, the Association of Public & Land Grant Universities concluded that 1) College graduates are half as likely to be unemployed as their peers who only have a high

school degree, 2) Typical earnings for bachelor's degree holders are \$36,000 or 84 percent higher than those whose highest degree is a high school diploma, 3) College graduates on average make \$1.2 million more over their lifetime than high school graduates.

Furthermore, higher education institutions have sucked up a large share of the rocketing student debt in the form of higher tuition and fees which soared by 447.2%, compared to 137.9% for all consumer goods and services since 1990. Additionally, National Association of College and University Business Officers (NACUBO) found that in a 2021-22 survey of 678 colleges and universities, institution endowments totaled \$807 billion or almost \$1.2 billion per higher education institution.

Thus, instead of loan forgiveness, a better plan would have colleges and universities, major beneficiaries of federal student loan programs, to share in the burden of student loan defaults. Just as unemployment compensation benefits are funded by firms that benefit from the program, universities and colleges should share in the burden of student non-payment of loans.

For example, construction firms with high rates of layoff pay a higher rate of unemployment insurance into programs to support those who lose their job and qualify for unemployment insurance. Universities should likewise fund similar programs that pay a portion of losses in student loan programs.

That is, universities and colleges with higher student loan defaults would pay higher fees to support the programs that cover defaults. This would encourage institutions to be more judicious in the selection of students, and insure that attending students are well prepared for post-education work. Ernie Goss.

**Table 1: Rural Mainstreet Economy Last 2 Months & One Year Ago: Index > 50 indicates expansion)**

	June 2022	May 2023	June 2023
Area Economic Index	49.8	55.8	56.9
Loan Volume	78.5	75.0	79.2
Checking Deposits	57.4	22.0	37.5
Certificates of Deposit and Savings	35.2	70.0	76.8
Farmland Prices	76.8	56.3	59.3
Farm Equipment Sales	71.4	50.2	48.3
Home Sales	55.4	55.8	48.2
Hiring	57.4	58.0	58.9
Retail Business	48.2	56.0	56.9
Confidence Index (economy six months out)	33.9	38.5	43.1

## BULLISH NEWS

- According to the Case-Shiller home price index, home prices grew for the third straight month in April, potentially signaling an end to the downward trend.
- The US trade deficit shrank in May as the value of imported merchandise declined to the lowest level since October 2021.
- U.S. employers added 209,000 workers in June—a solid growth value.

## BEARISH NEWS

- The labor force participation rate, the share of Americans working or seeking work, remained at a low 62.6% compared to a pre-pandemic 63.3%.
- In May, the number of workers not in the workforce who wanted a job stood at 5.5 million.
- Over the past 12 months, average hourly earnings climbed to \$33.44, or 4.3% (below the rate of inflation over the same time period).
- The U.S. trade deficit climbed to a record \$948.1 billion in 2022.
- The Congressional Budget Office estimates that this year's budget deficit will rise to \$1.5 trillion.



## Main\$street on Your \$street

**Overall: The region's overall reading in June climbed to 56.9, the highest reading since May 2022 and up from last month's 55.8.**

After declining below growth neutral for March, the overall Rural Mainstreet Index for June expanded above the threshold for a third straight month to its highest level since May 2022, according to the June 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 in June climbed to 56.9, the highest reading since May 2022 and up from last month's 55.8. The index ranges between 0 and 100, with a reading of 50.0 representing growth neutral.

After negative growth during the first quarter of this year, the Rural Mainstreet economy experienced positive, but slow, economic growth for all of the second quarter. Only 3.4% of bankers reported a downturn in economic conditions for the month.

**Farming and ranching land prices:** The region's farmland price index rose to 59.3 in June from 56.3 in May. This was the 33rd straight month that the index has advanced above 50.0.

**Farm equipment sales:** The farm equipment-sales index fell to a weak 48.3 from 50.2 in May. Farm equipment sales declined for only the third time in the past 31 months. Higher borrowing costs have begun to negatively impact purchases of farm equipment.

More than half of bankers reported that higher interest rates were impairing farm equipment purchases. On the other hand, Mike Van Erdewyk, CEO of Breda Savings Bank in Breda, Iowa, said, "Higher interest rates are not having a significant impact on farm operations yet as many farmers have paid down operating lines with grain sales."

The Rural Mainstreet economy continues to experience slow economic growth. Only 11.5% of bankers reported improving economic conditions for the month with 88.5% indicating no change in economic conditions from April's slow growth.

Bankers reported that non-pasture farmland prices in their area grew by an average 4.3% over the past 12 months. The bankers were much more negative about future with average price growth of 0.0% over the next 12 months.

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Only 15.4% of bank CEOs see the banking insolvency crisis as over while the remaining 84.6% expect banks to continue to report insolvency challenges.

James Brown, CEO of Hardin County Savings in Eldora, Iowa said, "The liquidity problem will continue for sometime and we will see more regulation because of it. And as a bonus for their (regulators) being late to the table, we will all pay higher FDIC payments for as long as we can see."

Jeff Bonnett, CEO of Havana National Bank in Havana, IL said, "I hope that the ICBA and state community bank associations can be successful in clarifying my point as "community banks" should NOT pay for this big bank mess with increased FDIC assessments."

**Hiring:** The new hiring index for June climbed to 58.9 from May's 58.0. Over the past 12 months, the Rural Mainstreet Economy has expanded jobs by 2.2% compared to a lower 1.5% for urban areas of the same 10 states.

Other quotes from bank CEOs for the month:

- Mike Van Erdewyk, CEO of Breda Savings Bank in Breda, Iowa, said, "The fear of a drought seems to be bigger than fear of a recession."
- Marc Lamon, President of FirstTier Bank in Holdrege, Neb., said, "Liquidity on the banks' balance sheet is of front concern with competition for consumers' deposits and desire for higher deposit insurance."

# GOSS EGGS

## RECENT DUMB ECONOMIC MOVES

### Missing

**1,200,000 U.S.**

**workers.** Despite solid job growth, the labor force participation rate remains 0.7% below pre-pandemic levels. This means **1.2 million** workers remain out of the workforce. Contributing to this loss is federal spending on social programming such as food stamps and rent support. Over the last year, the Biden Administration has expanded social spending by \$168 billion, or 4.3%. Compared to pre-pandemic spending, outlays for social spending by Trump and Biden Administrations have exploded by \$943 billion, or 30.2%.

### 4 OF 5 GOSS EGGS



**Confidence:** Higher interest rates, deposit outflows and a rising regulator environment continued to constrain the business confidence index to a weak 43.1, but up from 38.5 in May. Over the past 12 months, the regional confidence index has fallen to levels indicating a negative outlook.

**Home and retail sales:** June home-sales sank to 48.2 from May's 55.8. Higher mortgage rates and a shortage of houses for sale constrained sales across the region.

The retail-sales index for June expanded to 56.9 from May's 56.0. Bankers are getting more optimistic regarding the economic outlook for retail sales for the third quarter after an OK quarter two.

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 RMI for June declined to a strong 63.4 from May's 65.3. The farmland- and ranchland-price index for June fell to 57.5 from 57.8 in May. The state's new hiring index was 57.5, down from 57.7 in May. The state exported \$118 million of agriculture and livestock in 2022. This represented 21.6% growth from the previous year. Mexico was the chief destination, capturing half of the state's farm exports.

**Illinois:** The June RMI for Illinois increased to 55.8 from May's 53.5. The farmland-price index climbed to 57.6 from 54.5 in May. The state's new-hiring index rose to 63.5 from 61.4 May. The state exported \$4 billion of agriculture and livestock in 2022. This represented 84.9% growth from the previous year. Mexico was the chief destination, capturing 40.9% of the state's farm exports. Jim Eckert, CEO of Anchor State Bank in Anchor, reported that, "Central Illinois is very dry in most areas. Crops look good but are well behind other years and need rain."

**Iowa:** Iowa's June RMI expanded to 51.7 from 50.8 in May. Iowa's farmland-price index advanced to 55.6 from May's 50.6. Iowa's new-hiring index for June moved higher to 52.4 from 48.8 in May. The state exported \$2.1 billion of agriculture and livestock in 2022. This represented 4.3% growth from the previous year. Mexico was the chief destination, capturing 70.9% of the state's farm exports.

**Kansas:** The Kansas RMI for June dropped to 55.3 from May's 57.9. The state's farmland-price index climbed to 57.4 from 55.7 in May. The June new-hiring index for Kansas declined to 54.7 from 55.1

in May. The state exported \$2.1 billion of agriculture and livestock in 2022. This represented a reduction of 0.9% from the previous year. Mexico was the chief destination, capturing 72.5% of the state's farm exports.

**Minnesota:** The June RMI for Minnesota fell to 54.9 from May's 59.0. Minnesota's farmland-price index climbed to 65.8 from 64.2 in May. The new-hiring index for June dipped to 54.6 from 55.5 in May. The state exported \$1.4 billion of agriculture and livestock in 2022. This represented 65.2% growth from the previous year. Canada was the chief destination, capturing 61.8% of the state's farm exports.

**Missouri:** The state's June RMI dropped to 44.5 from 47.7 in May. The farmland-price index rose to 54.4 from 52.8 in May. The state's new hiring gauge dipped to 50.9 from 51.6 in May. The state exported \$1.2 billion of agriculture and livestock in 2022. This represented 4.4% growth from the previous year. Mexico was the chief destination, capturing 83.0% of the state's farm exports. Don Reynolds, Chairman of Regional Missouri Bank in Marceline, reported that, "April, May, and early June have been the driest spring in my memory."

**Nebraska:** The Nebraska RMI slipped to a healthy 62.9 from 66.0 in May. The state's farmland-price index for June expanded to 59.6 from May's 58.0. Nebraska's June new-hiring index dipped to 69.5 from 72.0 in May. The state exported \$1.3 billion of agriculture and livestock in 2022. This represented 11.8% growth from the previous year. Mexico was the chief destination, capturing 69.4% of the state's farm exports.

**North Dakota:** North Dakota's RMI for June advanced to 56.8 from May's 54.8. The state's farmland-price index climbed to 57.9 from 54.8 in May. The state's new-hiring index rose to 64.3 from 62.5 in May. The state exported \$891 million of agriculture and livestock in 2022. This represented 10.9% growth from the previous year. Canada was the chief destination, capturing 51.3% of the state's farm exports.

**South Dakota:** The June RMI for South Dakota bounced to 51.2 from 46.7 in May. The state's farmland-price index advanced to 55.3 from May's 52.6. South Dakota's June new hiring index expanded to a healthy 56.3 from 55.6 in May. The state exported \$113 million of agriculture and livestock in 2022. This represented 74.9% growth from the previous year. Mexico was the chief destination, capturing 52.9% of the state's farm exports.

**Wyoming:** The June RMI for Wyoming grew to 54.9 from 53.7 in May. The June farmland- and ranchland-price index rose to 57.0 from 54.5 in May. Wyoming's new-hiring index increased to 61.7 from May's 61.5. The state exported \$9 million of agriculture and livestock in 2022. This represented a reduction of 42.7% from the previous year. Canada was the chief destination, capturing 52.2% of the state's farm exports.





## KEEP AN EYE ON

- **Consumer Price Index (CPI).** On August 10, the U.S. Bureau of Labor Statistics releases the CPI for June. Strong readings (e.g., over 0.3% monthly gains) would push the Federal Reserve to raise rates at their Sept. meetings.
- **Employment report.** On August 4, the U.S. BLS releases its job report for July. Another strong number (e.g. greater than 275,000) would support another Fed rate hike on September 19/20.
- **Yield on 10-year U.S. Treasury bond.** On July 6, 2023, the 10-year Treasury rose to its highest level since November 9, 2022. Every one-percentage point rise in the 10-year Treasury bond pushes the 30-year mortgage rate up by an equivalent one percentage point.

## THE OUTLOOK

**THE CONFERENCE BOARD SUMMARY:** The Leading Economic Index (LEI) provides an early indication of significant turning points in the business cycle and where the economy is heading in the near term. “The US LEI continued to fall in May as a result of deterioration in the gauges of consumer expectations for business conditions, ISM® New Orders Index, a negative yield spread, and worsening credit conditions,” said **Justyna Zabinska-La Monica, Senior Manager, Business Cycle Indicators,** Leading Index has declined in each of the last fourteen months and continues to point to weaker economic activity ahead. Rising interest rates paired with persistent inflation will continue to further dampen economic activity. While we revised our Q2 GDP forecast from negative to slight growth, we project that the US economy will contract over the Q3 2023 to Q1 2024 period. The recession likely will be due to continued tightness in monetary policy and lower government spending.”  
<https://tinyurl.com/bd6xhprh>

**Goss: I expect:** \*\*\*The Federal Reserve Open Market Committee to raise short-term interest rates un at their next meetings on July 25/26. Too much spending in the pipeline for the Fed reduce rates in 2023. \*\*\*I expect another 0.25% (25 basis points) rate increase at the Fed’s September meetings. \*\*\*A significant credit crunch in the commerical real estate and loan market in Q3, 3023. Loan rollover to higher rates will be too painful for firms. .

## BANKER READING ROOM

### “Today in the Middle of a National Crisis,”

“The NCUA continues to encourage and facilitate the rapid expansion of credit unions in size, scope and footprint to the detriment of consumers, small businesses, and communities. Community banks have distinguished themselves during this time--accounting for roughly 60% of all PPP loans. Additionally, credit unions' tax avoidance schemes already

cost Americans billions of dollars each year, and now they are abusing their mandate to snap up taxpaying community banks at an alarming rate. Congress has the oversight authority to examine this troubling distortion, and so, you need to ask your member of Congress to hold a hearing on the causes and impact of this dangerous trend and explore potential solutions.”  
<https://tinyurl.com/3pm8bzrd>

## STATISTIC(S) OF THE MONTH

**104** In 2022, China permitted an average of two coal-fired electricity plants per week, or 104, for the full year. Little wonder that China is responsible for 26.1% of global carbon emissions compared to 12.8% for the U.S.



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Goss monthly interview at:

<https://bit.ly/MidAmericaBCIJune2023YouTube>

Next month's survey results will be released on the third Thursday of the month, July 20, 2023

The Mainstreet Economic Report July 2023

## Economic Indicators for July, U.S., Rural Mainstreet & Mid-America

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

