

Welcome to Creighton's December Bank CEO Report. Merry Christmas and Happy Hanukkah to you and your family. I thank you for your participation over the past year. Survey data over the past six months indicate that the Rural Mainstreet Index is slightly below growth neutral with continuing weak farmland prices and feeble ag equipment sales.

French Reject Climate Change Solutions: Citizens Want Someone Else to Pay

French President Macron last week scrapped his carbon fuel tax which was designed to reduce carbon emissions, and slow climate change. One million French environmentalists and others rioted against the tax. In environmentally friendly Washington State voters twice rejected a carbon tax suggesting that even environmentalists want a less transparent solution to climate change: specifically, one that hides the costs, and taxes someone else.

French and Americans prefer their energy taxes to be hidden by subsidies, and managed by government enterprises. The latest U.S. Department of Energy data (2016) show that electricity producers in the U.S. received \$15.0 billion in subsidies with approximately \$6.7 billion going to renewable energy. Thus, despite accounting for only 17.0% of electricity production, renewable electricity producers received almost 45.0% of subsidies.

Even with the subsidies, renewable electricity costs per megawatt hour of production, including plant & equipment costs, greatly exceeds that of more conventional methods of generation. For example, relative to nuclear electricity production, costs per MWH for wind was five times that of nuclear, and solar was six times that of nuclear. But instead of producing more electricity with carbon free and cheaper nuclear, the U.S. has embarked on closing nuclear facilities, and expanding wind and solar.

The higher cost of electricity due, in part, to the contraction of cheaper conventional and opening of more expensive renewable has been differentially borne by low income Americans. In 2016, the lowest 20% of U.S. income earners paid 34.2% of their income for utilities and fuel, while the top 20% of U.S. income earners expended only 2.8% of their income on utilities and fuel. And between 2013 and 2016, the share of income spent on utilities declined for high income Americans but expanded rapidly for the lowest 20%.

In terms of efficiency and transparency, federal, state and local governments should implement a carbon that allows consumers and business, not government, to decide how to allocate scarce resources. Rebates could then be issued to lower income families that are inordinately harmed by the carbon tax. French President Macron was finally on the right side of an issue, but the French public, like the American public, wish to ignore a market-based, transparent solution.

MAINSTREET RESULTS

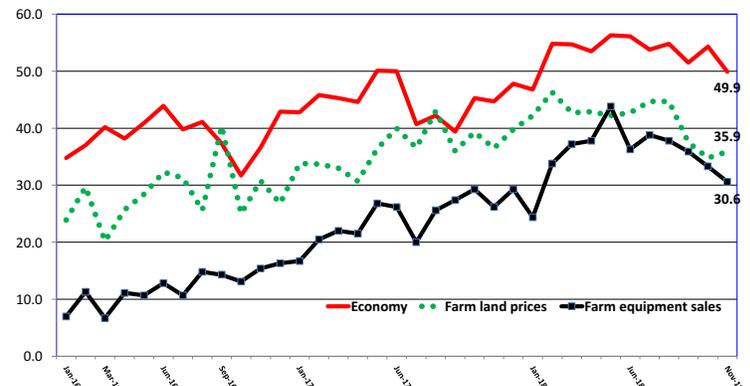
Rural Mainstreet Index Lowest in 10 Months: Over One-Third of Bank CEOs Want Tariffs Cut

November Survey Results at a Glance:

- Overall index falls below growth neutral for first time since January.
- Approximately 37.5 percent of bank CEOs support

	Nov 2017	Oct 2018	Nov 2018
Area Economic Index	44.7	54.3	49.9
Loan volume	49.1	60.0	60.6
Checking deposits	59.4	45.7	54.5
Certificate of deposits	44.8	42.9	47.0
Farm land prices	36.5	34.8	35.9
Farm equipment area sales	26.2	33.3	30.6
Home sales	56.6	54.3	51.6
Hiring in the area	57.6	65.7	66.7
Retail Business	40.7	51.4	45.5

Rural Mainstreet, Economic Indicators, Jan. 2016 – November 2018
(50.0 = growth neutral)



reducing recently enacted tariffs on imported good.

- On average, bank CEOs expect holiday retail sales in their area to expand by only 1.7 percent from last year
- On average, bankers project that farm loan defaults will rise by 5.0 percent over the next year.

The Creighton University Rural Mainstreet Index climbed above growth neutral in October for a ninth straight 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 overall index sank to 49.9, its first sub-growth neutral reading since January of this year, and down from October's 54.3. The index ranges between 0 and 100 with 50.0 representing growth neutral.

Our surveys over the last several months indicate that the Rural Mainstreet economy is expanding outside of agriculture. However, the negative impacts of tariffs and low agriculture commodity prices continue to weaken the farm sector .

Approximately 37.5% of bank CEOs support reducing recently enacted tariffs on imported goods.

Jeffrey Gerhart, CEO of the Bank of Newman Grove, Newman Grove, Neb. said, "Farmers continue to feel the negative impact of tariffs and that impacts their ability to make a buck. Farmers do not need this kind disruption in their markets. This is bad policy from the White House."

Farming and ranching: The farmland and ranchland-price for November increased to 35.9 from 34.8 in October. This is the 60th straight month the index has fallen below growth neutral 50.0.

Bank CEOs were asked to estimate the change in farm loan defaults over the next year in their area. On average, bankers project that farm loan defaults will rise by 5.0 percent over the next year.

The November farm equipment-sales index fell to 30.6 from October's 33.3. This marks the 63rd consecutive month that the reading has moved below growth neutral 50.0.

According to Jim Eckert, president of Anchor State Bank in Anchor, Illinois reported that, "Even though farm yields were decent, low prices have depressed land and equipment sales."

Banking: Borrowing by farmers advanced for November as the loan-volume index stood at 60.6, up slightly from 60.0 in October. The checking-deposit index increased to 54.5 from October's 45.7, while the index for certificates of deposit and other savings instruments increased to 47.0 from 42.9 in October.

Hiring: The employment gauge climbed to a very healthy 66.7 from October's 65.7. The Rural Mainstreet economy is now experiencing healthy job growth. Over the past 12 months, the Rural Mainstreet economy added jobs at a 1.5 percent pace compared to a lower 1.4 percent for urban areas of the same 10 states.

Confidence: The confidence index, which reflects expectations for the economy six months out, rose to a weak 47.0 from October's feeble 42.6, indicating a pessimistic economic outlook among bankers.

Just as last month, tariffs, trade tensions, and weak agriculture commodity prices negatively influenced the economic outlook of bank CEOs.

Home and retail sales: The home-sales index decreased to 51.6 from 54.3 in October. Retail sales slumped for the month with an index of 45.5, down sharply from October's 54.3.

On average, bank CEOs expect holiday retail sales in their area to expand by only 1.7 percent from last year. The downturn in farm commodity prices and income is spilling over into the retail sector across the region

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.

MAINSTREET ON YOUR STREET

COLORADO

Colorado's Rural Mainstreet Index for November rose to 55.2 from October's 54.6. The farmland and ranchland-price index increased to 36.3 from 35.1 in October. Colorado's hiring index for November climbed to 67.9 from October's 65.7. Over the past 12 months, Colorado's Rural Mainstreet economy added jobs at a 3.9 percent pace, while urban areas in the state increased jobs by 2.5 percent.

ILLINOIS

The November RMI for Illinois sank to 50.6 from 54.8 in October. The farmland-price index increased to 36.3 from October's 35.2. The state's new-hiring index climbed to 68.3 from last month's 66.7. Jim Eckert, president of Anchor State Bank in Anchor, said, "Area crops were not as poor as expected. Corn yields were 5-10% lower than 2017. Soybean crop was about the same as prior crop." Over the past 12 months, Illinois' Rural Mainstreet economy added jobs at a 2.4 percent pace, while urban areas in the state increased jobs by 0.7 percent.

IOWA

The November RMI for Iowa slumped to 48.7 from October's 53.5. Iowa's farmland-price index for November increased to 35.6 from October's 34.6. Iowa's new-hiring index for November climbed to 60.7 from October's 59.8. Over the past 12 months, Iowa's Rural Mainstreet economy added jobs at a 0.1 percent pace, while urban areas in the state increased jobs by 1.7 percent.

KANSAS

The Kansas RMI for November sank to 48.5 from October's 55.5. The state's farmland-price index was unchanged from 35.5 in October. The new-hiring index for Kansas declined to 60.0 from 69.7 in October. Over the past 12 months, Kansas's Rural Mainstreet economy added jobs at a 1.5 percent pace, while urban areas in the state increased jobs by 1.4 percent.

MINNESOTA

The November RMI for Minnesota fell to 47.2 from October's 53.9. Minnesota's farmland-price index rose to 35.8 from 34.8 in October. The new-hiring index for November advanced to 63.3 from October's 63.2. Over the past 12 months, Minnesota's Rural Mainstreet economy lost jobs at a pace of 0.3 percent, while urban areas in the state increased jobs by 1.6 percent.

MISSOURI

The November RMI for Missouri declined to 50.8 from 54.5 in October. The farmland-price index for the state increased to 36.4 from October's 35.1. Missouri's new-hiring index for November jumped to 69.3 from October's 65.6. Over the past 12 months, Missouri's Rural Mainstreet economy added jobs at a 3.1 percent pace, while urban areas in the state increased jobs by 1.1 percent.

NEBRASKA

The Nebraska RMI for November slumped to 49.5 from October's 54.2. The state's farmland-price index rose to 35.9 from last month's 34.9. Nebraska's new-hiring index dipped to 64.1 from 64.5 in October. Over the past 12 months, Nebraska's Rural Mainstreet economy added jobs at a 1.1 percent pace, while urban areas in the state increased jobs by 2.1 percent.

NORTH DAKOTA

The North Dakota RMI for November declined to 50.0 from October's 53.9. The state's farmland-price index dipped to 36.1

from 36.7 in October. The state's new-hiring index increased to 66.1 from 63.0 in October. Over the past 12 months, North Dakota's Rural Mainstreet economy added jobs at a 1.4 percent pace, while urban areas in the state increased jobs by 0.8 percent

SOUTH DAKOTA

The November RMI for South Dakota remained above growth neutral, but declined to 51.0 from October's 55.5. The state's farmland-price index increased to 36.5 from October's 35.4. South Dakota's new-hiring index bounced to 70.2 from 69.6 in October. Over the past 12 months, South Dakota's Rural Mainstreet economy added jobs at a 1.8 percent pace, while urban areas in the state increased jobs by 1.7 percent.

WYOMING

The November RMI for Wyoming fell to 51.6 from October's 56.3. The November farmland and ranchland-price index moved higher to 36.7 from October's 35.8. Wyoming's new-hiring index for November dipped to 72.5 from 72.8 in October. Over the past 12 months, Wyoming's Rural Mainstreet economy added jobs at a 2.8 percent pace, while urban areas in the state increased jobs by 0.7 percent.

THE BULLISH NEWS

- U.S. mortgage rates are down significantly over the past three weeks.
- In November, the U.S. economy added 155,000 jobs, the unemployment rate stood at 3.7% and hourly wages increased by 3.1% from November of last year.
- Both Creighton's and the national surveys of manufacturers projects solid growth for the next 3-6 months.

THE BEARISH NEWS

- The U.S. trade deficit soared to a 10-year high of \$55.5 billion in October. The trade gap with China widened to \$43.1 billion despite tariffs on Chinese goods into the U.S.
- The U.S. federal budget deficit rose to \$100 billion for October 2018 well higher than the \$63 billion deficit for October 2017.
- U.S. new home sales plunged 8.9% in October. Over the past year, new home sales have declined by 12%.

WHAT TO WATCH

- **Consumer Price Index for October:** The U.S. Bureau of Labor Statistics will release the CPI for November on December 12. Monthly growth above 0.2% will be bearish for bonds and stocks.
- **Inverted yield:** Every recession since 1980 has been preceded by 2-year rates exceeding, or approximating, 10-year rates (termed an inverted yield). Currently 13 basis points (0.13%), and too low for comfort.
- On December 19, the interest rate setting committee (FOMC) will announce any rate change. But keep an eye on their expected rate changes for 2019.

THE OUTLOOK

FROM GOSS:

- I expect **the Federal Reserve to raise rates on December 19 (0.25% or 25 basis points) 75% likelihood; **GDP growth to slow in the second half of 2018, but remain above 3.0% annualized. ***annualized growth in the consumer price index (CPI) to exceed 2.7% in Q4, 2018.

OTHER FORECASTS:

- **National Association of Business Economics (December, 2018). SUMMARY:** "NABE Outlook panelists continue to view the economy as having solid momentum entering 2019, but they foresee GDP growth cooling from 2.9% this year to 2.7% in 2019," said NABE President Kevin Swift, CBE, chief economist, American Chemistry Council. "The panel expects the Federal Reserve to continue gradually tightening monetary policy, and anticipates a federal funds rate hike at the upcoming December FOMC meeting, followed by three rate increases in 2019." "While panelists remain generally optimistic, three-quarters of respondents see risks being tilted to the downside," added Survey Chair Gregory Daco, chief U.S. economist, Oxford Economics. "Panelists view increasing trade tensions as the primary downside risk to their outlook, with 80% of respondents reducing their 2019 GDP growth outlook in response to trade policy developments. Even so, recession risks are still perceived to be low in the near term, with the panel expecting a 20% risk of recession by the second half of 2019, and a 30% chance by the end of 2020."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- In 2011, Uri Rafaeli bought a \$60,000 house in Oakland County, Michigan. In that year he accidentally underpaid his property taxes by \$8.41. Unaware of his error, he continued to pay the property taxes in a timely manner. In 2014, Oakland County foreclosed on the property and sold the property for \$24,500 and refused to remit any of the sale to Mr. Rafaeli. Government seizures laws across the nation treat all debtors like drug dealers

BANKER READING ROOM

The final 2018 Farm Bill is expected to be voted on as early as next week. The bill would legalize hemp cultivation and could be a catalyst for explosive growth in a nascent industry that some forecast could top \$20 billion by 2022. The long-awaited bill would remove industrial hemp from the federal government's list of controlled substances, making it a lawful agricultural commodity. The hemp legislation introduced by Senate Majority Leader Mitch McConnell, R-Ky., earlier this year also allows states to become the primary regulators of hemp cultivation, enables researchers to apply for federal grants and makes the crop eligible for crop insurance

<https://tinyurl.com/yaec8sro>

STATISTIC OF THE MONTH

0.13% (13 basis points). The gap between the yield on the 10-year U.S. Treasury bonds (2.852%) and the 2-year U.S. Treasury bond (2.721%) dropped to its lowest level since the U.S. recession.

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