THE MAINSTREET ECONOMY REPORT

"A monthly survey of community bank CEO's"

April 2018

Is the U.S. the Next Greece? Boomers Punish Millennials with Soaring U.S. Debt

Over the past 200 years, Greece has reneged seven times on the repayment of its national debt. And in 2017, Greece once again teetered on default but, by agreeing to austerity measures, was bailed out by the European Central Bank (ECB) and the International Monetary Fund (IMF). In most cases, Greek government spending beyond its means - i.e. deficit spending - produced these nasty outcomes. Will the U.S. government face the same problem in the years ahead?

With the U.S. debt, both public and private, now exceeding $20 trillion, or 104% of Gross Domestic Product (GDP), lenders and taxpayers are questioning the federal government's ability to pay interest and principal on that debt. The debt as a percent of GDP has exploded from 39.6% in 1966 to 103.7% in 2017 producing this concern. During this time period, U.S. presidents ranged in their contribution to the problem. As a percent of GDP, during Obama's term, the debt increased by 4.7 percentage points per year. At the other end of the spectrum, the ratio declined by 1.1 percentage points annually under Johnson. Others include: Bush Sr. a yearly gain of 3.1 points; Reagan an increase of 2.2 points annually; Bush Jr. an upturn of 1.5 points per year; Ford an expansion of 0.4 points yearly; Carter a reduction of 0.5 points per year; Nixon a decrease of 0.6 points yearly; and Clinton an annual drop of 0.8 points.

Adding to the potential crisis, the CBO projects that debt held by the public will advance by another 12% in the next decade. U.S. taxpayers and investors ask, is the U.S. the next Greece? The quick, short and accurate answer is NO! But why not?

First, the U.S. dollar is, and will continue to be, the global reserve currency. This means that foreign investors re-main willing to lend to the U.S. despite the heavy debt load and current rock bottom interest rates.

Second, the U.S. Federal Reserve stands ready to buy U.S. debt regardless of the size of the debt. This Fed action would boost the money supply, increase inflationary pressures, and reduce the size of the inflation-adjusted debt.

Third, the U.S. Treasury can always open the dollar spigot to pay interest and return principal on maturing notes, again adding to inflationary pressures and diminishing the size of the inflation-adjusted debt load.

Finally, the federal government can raise federal taxes to cover government over-spending. The outcomes from these actions for a younger generation are likely to be a combination of higher interest rates, greater inflation and expanding taxes. That is, baby boomers stick it to Millennials! Ernie Goss.

MAINSTREET RESULTS

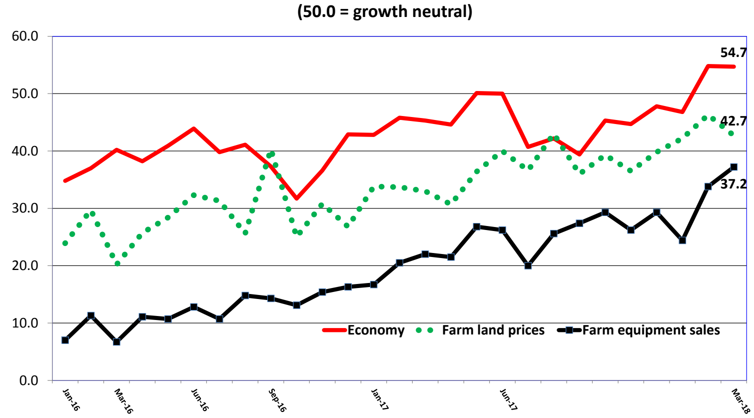
Rural Mainstreet Index Remains Positive:
Dodd-Frank Limits Lending for Most Rural Banks

Table 1: The Mainstreet Economy	Mar 2017	Feb 2018	Mar 2018
Area Economic Index	45.3	54.8	54.7
Loan volume	58.4	53.8	56.9
Checking deposits	56.0	48.8	58.0
Certificate of deposits	47.6	45.2	50.0
Farm land prices	33.0	46.3	42.7
Farm equipment area sales	22.0	33.8	37.2
Home sales	56.2	52.4	52.3
Hiring in the area	59.6	58.8	58.1
Retail Business	41.5	47.6	48.9

Survey Results at a Glance:

- For a second straight month the overall index rose above growth neutral.
- Approximately 16.8 percent of grain farmers are expected to suffer negative cash flow for 2018. This is down slightly from 12 months earlier.
- The percent of farmland purchases for cash (not financed) declined from 23 percent to 20 percent over the past 12 months according to bankers.
- Farmland prices and agriculture equipment sales continued to decline.

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



The Creighton University Rural Mainstreet Index declined slightly in January from December's weak reading, remaining below growth neutral, according to the latest monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy.

Overall: The overall index dipped slightly to a solid 54.7 from 54.8 in February. The index ranges between 0 and 100 with 50.0 representing growth neutral.

Surveys over the past several months indicate that the Rural Mainstreet economy is trending upward with improving, but slow economic growth. However, weak agriculture commodity prices continue to weigh on the rural economy.

Jim Eckert, president of Anchor State Bank in Anchor, Illinois, reported, "Recent commodity price in-creases have helped the mood of our farmers. Our area is somewhat dry and good spring rains will be es-sential for a good 2018 crop."

Farming and ranching: The farmland and ranchland-price index for March dropped to 42.7 from Febru-ary's 46.3. This is the 52nd straight month the index has fallen below growth neutral 50.0.

The percent of farmland purchases for cash (not financed) declined from 23 percent to 20 percent over the past 12 months according to bankers.

The February farm equipment-sales index jumped to 37.2 from February's 33.8. This marks the 55th con-secutive month the reading has moved below growth neutral, 50.0.

Bankers project that 16.8 percent of grain farmers in the region will experience negative cash flow for 2018. This is down slightly from 12 months earlier when bank CEOs estimated that 17.0 percent of grain farmers would suffer from cash costs exceeding case revenues.

According to Fritz Kuhlmeier, CEO of Citizens State Bank in Lena, Illinois, "Many borrowers in the Ag sector continue to erode working cash with negative cash flow projections."

Banking: Borrowing by farmers expanded for March as the loan-volume index rose to 56.8 from 53.8 in February. The checking-deposit index climbed to 58.0 from February's 48.8, while the index for certifi-cates of deposit and other savings instruments advanced to 50.0 from 45.2 in February.

Bank CEOs were asked how 2010's Dodd-Frank Bill has affected their banks' ability to meet borrowing needs of area farmers. Approximately 72.7 reported that the bill has limited their banks' ability to meet area farmers' borrowing needs.

On the other hand, several bankers brought out some of the positives of the Dodd-Frank bill. For example, Jeffrey Gerhart, chairman of the Bank of Newman Grove, Newman Grove, Nebraska identified two posi-tives from the legislation. "Dodd/Frank raised FDIC coverage from $100,000 to $250,000 which has helped our deposit growth. FDIC assessments were significantly lowered for community banks while FDIC assessments were increased for large banks who had been exempt from paying their fair share."

Hiring: The employment gauge declined to a still healthy 58.1 from February's 58.8 and January's 50.0. The Rural Mainstreet economy is now experiencing positive year-over-year job growth.

Confidence: The confidence index, which reflects expectations for the economy six months out, jumped to 58.0 from February's 52.4 indicating rising economic optimism among bankers. This is the highest reading for the economic confidence number since June 2013. "However, an unresolved North America Free Trade Agreement and relatively weak agriculture commodity prices continue to be a concern.

Pete Haddeland, CEO of the First National Bank in Mahnomen, Minnesota indicated that rural bankers would be keeping a close eye on NAFTA negotiations and their impact on ag commodity prices.

Home and retail sales: The home-sales index moved slightly lower for the Rural Mainstreet economy in March falling to 52.3 from February's 52.4. The March retail-sales index improved to a weak 48.9 from 47.6 in February. Much like their urban counterparts, Rural Mainstreet retailers continue to experience weak sales.

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. The survey is supported by a grant from Security State Bank in Ansley, Neb.

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.

MAIN$TREET ON YOUR $TREET

COLORADO
Colorado's Rural Mainstreet Index (RMI) increased to 62.0 from 59.6 in February. The farmland and ranchland-price index fell to 44.9 from February's 47.7. Colorado's hiring index for March climbed to 73.0 from February's 68.6.

ILLINOIS
The March RMI for Illinois climbed to 58.4 from 54.4 in February. The farmland-price index rose to 47.3 from 46.1 in February. The state's new-hiring index advanced to 65.8 from last month's 58.1.

IOWA
The March RMI for Iowa fell to 52.8 from 55.3 in February. Iowa's farmland-price index for March declined to 42.7 from February's 46.4. Iowa's new-hiring index for March dipped to 58.5 from February's 60.0.

KANSAS
The Kansas RMI for March jumped to 55.7 from February's 51.1. The state's farmland-price index rose to 45.8 from 45.1 in February. The new-hiring index for Kansas climbed to 60.5 from February's 51.5.

MINNESOTA
The March RMI for Minnesota expanded to 54.9 from February's 52.9. Minnesota's farmland-price index decreased to 42.7 from 45.1 in February. The new-hiring index for the state climbed to 58.8 from February's 51.4.

MISSOURI
The March RMI for Missouri declined to 59.0 from 59.6 in February. The farmland-price index expanded to 44.0 from 42.3 in February. Missouri's new-hiring index declined to 54.1 from 68.5 in February.

NEBRASKA
The Nebraska RMI for March fell to 52.3 from February's 54.3. The state's farmland-price index sank to 42.6 from last month's 46.1. Nebraska's new-hiring index fell to a still solid 57.8 from 57.9 in February.

NORTH DAKOTA
The North Dakota RMI for March sank to 51.4 from February's 57.9. The state's farmland-price index moved lower to 41.7 from 47.2 in February. North Dakota's new-hiring index fell to 51.8 to

65.1 in February.

SOUTH DAKOTA
The March RMI for South Dakota moved above growth neutral to a solid 54.4 from February's 48.2. The state's farmland-price index climbed to 42.6 from February's 40.0. South Dakota's new-hiring index expanded to 55.1 from 45.8 in February.

WYOMING
The March RMI for Wyoming rose to 55.5 from February's 52.3. The March farmland and ranchland-price index slumped to 42.9 from 48.9 in February. Wyoming's new-hiring index slipped to 53.8 from February's 53.9.

THE BULLISH NEWS

- Since the market bottom in December 2012, the Case-Shiller National Home Price index has climbed at a 4.7%–inflation adjusted – annual rate. That is approximately twice the rate GDP growth.
- The national and Creighton PMIs (Purchasing Management Indices) were both strong for March indicat-ing that manufacturing, regional and national, remain strong.
- Quarter I earnings for the S&P 500 are projected to rise to their highest level in 7 years.

THE BEARISH NEWS

- The gap between the yield on investment grade corporate bonds and U.S. Treasury bonds has widened to 1.14% indicating expanding financial risks (still low but climbing).
- This week the Congressional Budget Office estimated that the U.S. budget deficit will exceed $1 trillion by 2020.
- The U.S. economy added only 103,000 jobs for March and January and February job additions were re-vised down by 50,000.

WHAT TO WATCH

- **Inflation, Inflation, Inflation:** The Bureau of Labor Statistics will release the inflation gauge for April on May 10. An annualized increase above 2.5% will be bullish for stock prices and bearish for bond prices (rising yields, falling prices).
- **GDP Growth**: On April 27, the U.S. Bureau of Economic Analysis releases its estimate of first quarter gross domestic product growth. Annualized growth below 2.0% will be bearish for stocks and bullish for bonds.
- **Federal Open Market Committee (FOMC)**: On May 2, the interest rate setting committee of the Federal Reserve (FOMC) will announce its current stance on interest rates. Bullish statements by the committee would take some air out of U.S. equity markets.

THE OUTLOOK

FROM GOSS:

- I expect **two more Federal Reserve rate hikes by the end of 2018 (0.5% or 50 basis points); **the nation's consumer prices to expand by 2.7% in 2018; wage growth to pick up in 2018 with hourly wages growing by 3.1% in 2018. ***the nation's trade deficit to worsen for all of 2018. A rapidly expanding U.S. economy boosts imports more than exports.

OTHER FORECASTS:

- **NABE Business Conditions Survey (January 2018):** SUMMARY: "NABE Outlook panelists are more optimistic about the U.S. economy in 2018 than they were three months ago, especially regarding prospects for the industrial sector of the economy," said NABE Vice President Kevin Swift, CBE, chief economist, American Chemistry Council. "The panel's median forecast for average annual real gross domestic product (GDP) growth in 2018 is 2.9%, up from 2.5% in the December survey. In addition, 76% of panelists believe that risks are weighted to the upside. In large part, the increase in growth prospects appears related to federal fiscal policies," added survey chair David Altig, executive vice president and director of research, Federal Reserve Bank of Atlanta. The median estimate of the impact on real GDP growth resulting from fiscal policy changes is an increase of 0.45 percentage points in 2018, and 0.3 percentage points in 2019."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- New Jersey Governor Phil Murphy has proposed that the state provide "free" attendance for residents at community colleges in the state. To pay for this misguided program, he proposes raising the state sales tax rate to 7% and boosting the income tax rate on workers earning more than $1 million from 8.97% to 10.75%. Snow birds will take flight to warmer environs.

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This month's survey results will be released on the third Thursday of the month, April 19th.