THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

December 2014

Commercial Casino Gambling: Hurts Economic Growth & Increases Welfare Spending

State and local governments across the nation are becoming more and more addicted to casino gambling with the number of states permitting commercial casino wagering rising from 11 in 2000 to 23 in 2012. In order to win citizen approval of casino gambling, policymakers normally promise improved economic performance, lower tax burdens, and more spending on education. With tax rates on casino revenues roughly four times the average sales tax rate, it is no surprise that state and local policymakers become hooked on casinos. Between 2000 and 2012, despite assurances from elected and non-elected officials, states with commercial casinos versus states without commercial casinos experienced lower GDP growth, 54.8% versus 62.6%, and inferior job growth, 5.5% compared to 8.7%. Furthermore, states with commercial casinos shelled out 15.2% of GDP in the form of transfer and welfare payments in 2012, which was significantly higher than that for states without commercial casinos of 13.8%. And did commercial casinos produce lower tax burdens? No! For the latest year, citizens of the 23 commercial casino states suffered a state and local tax burden as a percent of GDP of 8.6%, while the 28 states and DC with no commercial casinos experienced a lower 8.1% tax burden. But commercial casino states did spend more on education. In 2012, gambling states spent 5.6% of GDP on education which was above the 5.3% of GDP spent by non-casino states. Thus, the most recent data show that commercial casinos do not deliver on the promise of economic development and lower taxes. Instead, commercial casinos appear to restrain growth, increase overall tax burdens, and boost welfare and education spending. Ernie Goss.

MAINSTREET RESULTS

November's Rural Mainstreet Index Still Weak: Almost 30 Percent Increase in Regulatory Compliance Costs

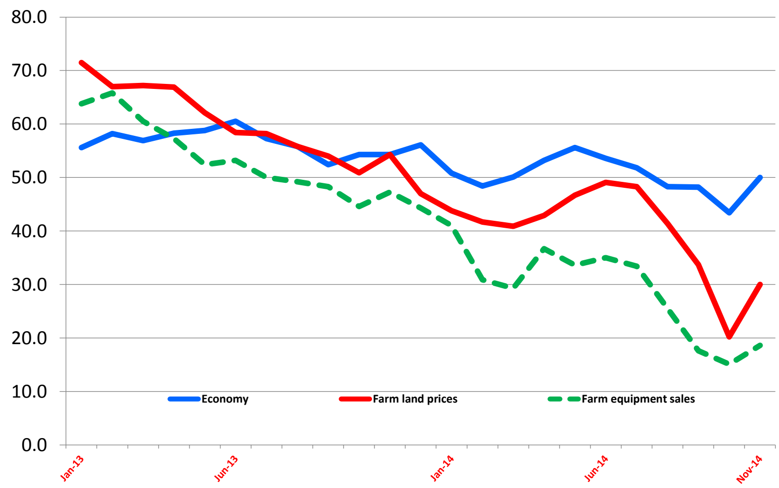
Tables 1 below summarizes the findings from this month's survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	Nov 2013	Oct 2014	Nov 2014
Area Economic Index	54.3	43.4	50.0
Loan volume	56.9	71.7	56.2
Checking deposits	72.0	49.1	57.9
Certificate of deposits	44.8	40.4	37.5
Farm land prices	54.3	20.2	30.0
Farm equipment area sales	47.3	15.1	18.6
Home sales	56.2	49.0	51.0
Hiring in the area	54.4	55.7	61.9
Retail Business	47.4	44.4	50.0
Economy 6 months from now	48.3	34.6	44.7

Survey Results at a Glance:

- For the first time since May, the Rural Mainstreet has improved, but to a weak level.
- Farmland prices declined for the 12th straight month.
- Farm-equipment sales declined for the 16th consecutive month.
- On average bankers reported a 29.4 percent increase in regulatory compliance costs since the passage of the Dodd-Frank bill.
- Approximately 10.5 percent of bank CEOs indicated that new compliance regulations had caused their bank to re-duce or no longer make agriculture or business loans.

Rural Mainstreet Economy January '13 – November '14
Creighton University



The Rural Mainstreet Index moved higher according to the November survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. The index has been trending lower since June 2013. Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, rose to growth neutral, 50.0, from 43.4 in Oc-tober.

Even though the overall index rose sharply, low grain and energy prices continue to restrain the rural economy. Higher input costs and lower crop prices are squeezing farm profitability across the region. According to Jim Ash-worth, president of CNB Bank Shares of Carlinville, Ill., said, "Some landlords acknowledge that all grain input costs are increasing. If grain prices can't sustain costs, something will have to give."

Farming and ranching: The farmland and ranchland-price index for November advanced to a very weak 30.0 from October's record low 20.2. Much weaker crop prices continue to take the air out of the bubble in agriculture land prices. This is the 12th straight month that the index has moved below growth neutral.

The November farm-equipment sales index expanded to 18.6 from October's record low 15.1. The index has been below growth neutral for 16 straight months. As a result of the more than 30 percent decline in crop prices, farmers continue to reduce their purchases of agriculture equipment.

Banking: The November loan-volume index dropped to a solid 56.2 from 71.7 in October. The checking-deposit index expanded to 57.9 from October's 49.1, while the index for certificates of deposit and other savings instruments sank to a very weak 37.7 from last month's 40.4.

This month, bank CEOs were asked several questions regarding the banking regulatory environment for community banks. On average bankers reported a 29.4 percent increase in regulatory compliance costs since the passage of the Dodd-

Frank bill in 2010. Approximately 10.5 percent of bank CEOs indicated that new compliance regulations had caused their bank to reduce or no longer make agriculture or business loans.

Almost one-third, or 31.0 percent, of bankers reported that the lack of demand from potential borrowers was limiting bank lending in their area.

Jim Eckert, president of Anchor State Bank in Anchor, Ill. said, "Constant changes and more restrictive regulations (particularly since Dodd-Frank passed) on 1-4 family residential real estate loans have forced our small bank to exit the residential real estate market."

However, Pete Haddeland, CEO of the First National Bank in Mahnomen, Minn., said, "Our loans are up 20 per-cent from last year. You just have to look for them."

Larry Winum, president of Glenwood State Bank in Glenwood, Iowa, said, "I am hopeful with the recent election that our new leaders will make the necessary regulatory changes that are necessary to Dodd-Frank and other bank-ing regulations that will make it easier for community banks to lend to their customers."

Hiring: Despite weaker crop prices and pullbacks from businesses with close ties to agriculture rural Mainstreet businesses continue to hire at a solid pace. The November hiring index climbed to a healthy 61.9 from October's 55.7. Businesses on Rural Mainstreet continue to add jobs at a healthy pace even with the weaker agriculture condi-tions. Year-over-year job growth for the region is now approximately 2.1 percent, which is well above the historic average.

Even in areas of high unemployment, bankers report shortages of workers. As detailed by Brian Nicklason, presi-dent of Woodland Bank in Remer, Minn, "The Iron Range in NE Minnesota is looking for multiple positions and cannot find qualified individuals. We recently have had difficulties finding applicants for beginning tellers."

Confidence: The confidence index, which reflects expectations for the economy six months out, rose to a weak 44.7 from 34.6 in October. Much weaker crop prices have negatively affected the outlook of bank CEOs over the last several months.

Home and retail sales: The November home-sales index grew to a tepid 51.0 from October's 49.0. The November retail sales index rebounded to 50.0 from 44.4 in October. Weak crop prices are weighing on regional retail trade.

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 approxi-mately 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) remained above the 50.0 threshold for the ninth straight month, with the index advancing to 53.8 from 52.1 in October. The farmland and ranchland-price rose to 46.5 from October's 38.2. Colorado's hiring index for November climbed to a very healthy 72.5 from 66.9 in October.

ILLINOIS
After declining for four straight months, Illinois' RMI increased, moving to 49.7 from October's 39.4. The state's farmland-price index expanded to 26.2 from 17.9 in October. The new-hiring index jumped to 56.3 from 50.7 in October.

IOWA
The November RMI for Iowa advanced to 49.8 from October's 40.5. The state's farmland-price index for November expanded to 30.2 from 18.9 in October. Iowa's new-hiring index for November rose to 59.5 from Octo-ber's 53.9.

KANSAS
The Kansas RMI for November climbed to 50.2 from October's 43.9. The state's farmland-price index for November increased to 34.6 from October's 26.3. The new-hiring index for Kansas expanded to 63.0 from 57.4 in October.

MINNESOTA
The November RMI for Minnesota advanced to 49.7 from October's 44.2. Minnesota's farmland-price index grew to 36.8 from 28.5 in October. The new-hiring index for the state soared to 75.7 from October's 59.2.

MISSOURI
The November RMI for Missouri soared to 56.2 from October's 41.2. The farmland-price index for November expanded to 50.5 from October's 18.6. Missouri's new-hiring index increased to 75.7 from 54.5 in October.

NEBRASKA
The Nebraska RMI for November advanced to 48.3 from 43.0 in October. The state's farmland-price index for November expanded to 21.5 from 13.1 in October. Nebraska's new-hiring index jumped to 52.5 from October's 46.9.

NORTH DAKOTA
: The North Dakota RMI for November rose to 57.0 from October's 53.4. The farmland-price index climbed to 61.5 from 53.2 in October. North Dakota's new-hiring index rocketed to 84.5 from October's 62.5

SOUTH DAKOTA
The November RMI for South Dakota rose to 49.0 from October's 44.1. The farmland-price index for November increased to 31.4 from last month's 15.8. South Dakota's new-hiring index advanced to 60.4 from 54.9 in October.

WYOMING
The November RMI for Wyoming climbed to 51.0 from October's 44.4. The November farmland and ranchland-price index grew to 36.2 from October's 19.2. Wyoming's new-hiring index for November rose to 64.3 from October's 52.4.

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THE BULLISH NEWS

- West Texas crude oil (WTI) dropped to $66 this week. For most industries this is a very positive outcome
- The U.S. economy added 321,000 jobs in November and the unemployment rate remained steady at 5.8%.
- Inflation adjusted average weekly earnings increased 0.4% for October.

THE BEARISH NEWS

- Overall, wages were up 2.1% for the 12 months ended in November. That was a bit better than the 1.7% inflation rate, but not near the Fed's desired 3% growth.
- Retail sales expanded by only 0.3% from September to October. This is after a decline for September. Retail sales advanced by 4.5% from October 2013 to October 2014..
- The Case-Shiller home price index for September declined by 0.1% and the year over year gain came in at 4.8%.

WHAT TO WATCH

- **Case-Shiller Home Price Index:** On the last Tuesday of the month, the Case-Shiller home price index will be released. Another significant decline in the growth number will be a warning signal for the housing market. Year over year growth above 5.0% will be good.
- **Retail trade:** On January 14, 2015, the U.S. Census Bureau will release retail sales data for December. This will be an important signal of consumer strength (or lack thereof).
- **Wage data:** On Friday Jan. 9, the Bureau of Labor Statistics, as part of its employment report, releases its wage number. Year over year growth above 2.3% will encourage the Federal Reserve Bank to begin to lay groundwork for an interest rate hike.

THE OUTLOOK

FROM GOSS:

- The U.S. trade deficit to begin rising significantly in the months ahead as exports retreat and imports swell..
- The 2015 holiday buying season to be the best since 2007.
- The Fed to begin preparing the market for a rate hike which is now likely to come as early as March 2015.

OTHER FORECASTS:

- National Association of Business Economics (NABE): SUMMARY: "Economists participating in NABE's December 2014 Outlook Survey expect economic growth to accelerate in 2015," according to NABE President John Silvia, chief economist of Wells Fargo. "The NABE panelists' median forecast is for real GDP growth to measure 3.1% on an annual average basis next year, a marked improvement from the 2.2% growth rate currently expected for 2014. On a Q4/Q4 basis, the panel's median forecast is for real GDP to climb 2.2% in 2014 and 2.9% in 2015. The Outlook Survey panelists anticipate the solid pace of output growth will be accompanied by continued labor market firming, with nonfarm employment expanding by nearly 220,000 jobs per month next year and the unemployment rate falling to 5.4% by the fourth quarter of 2015. These views are slightly more optimistic than those expressed in NABE's previous Outlook Survey released in September."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Fannie Mae and Freddie Mac this week announced details of a plan to allow some first-time homeowners to obtain a mortgage while putting down just 3% of the price of the home. Were these folks asleep in 2007 and 2008? When a "home of your own" becomes the next entitlement, the American taxpayer is truly in trouble---bailouts as far as the eye can see!

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