THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

December 2015

Red, Blue and Purple Metropolitan Areas: Top Economic Performers 13 Red Metros Outperformed 77 Blue and 10 Purple Metros

Do Red metropolitan areas, which are viewed as more pro-business and tax friendly, experience superior economic performance in comparison to Blue metro areas that are judged as more pro-government and tax heavy? Of the 100 largest U.S. metro areas in terms of population, 77 have Democrat mayors (Blue), 10 have Independent mayors (Purple), and 13 have Republican mayors. Over the period of examination, 2001-2014, Red metros grew productivity, or gross domestic product (GDP) per worker, by a median 48.6 percent compared to 43.2 percent for Blue metros, and 37.5 percent for Purple metros. Over the time period, in comparison to workers in Red metros, each Blue worker lost $3,817 in productivity, and each Purple worker lost $8,523 in productivity.

The top performing metro area was Red Bakersfield, CA with productivity expanding by 78.3 percent, while the worst performing metro was Purple Fort Meyers, FL with productivity growth of only 12.4 percent. The number one Blue metro was Baton Rouge, LA with productivity growth of 77.5 percent over the time period.

However contrary to expectations, Red cities enlarged the size of government by 61.5 percent which ex-ceeded that of Blue metros' 56.6 percent growth, and 60.8 percent growth for Purple metros. Fort Meyers, the slowest growing metro, expanded the relative size of government faster than the other 99 metros. The 10 metro areas expanding the relative size of government the most swiftly experienced productivity growth of 41.3 percent compared to 45.8 percent for the 10 metro areas advancing government growth the most slowly. These estimates do not take into account the likelihood that some of the metropolitan areas may have changed colors during the period of analysis.

MAINSTREET RESULTS

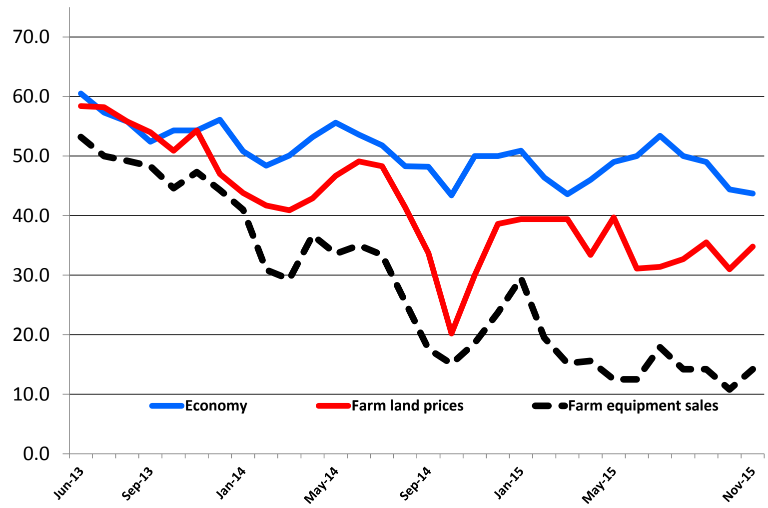
Rural Mainstreet Index Falls Below Growth Neutral for Third Straight Month: Cash Rents on Farmland Tumble

Table 1: The Mainstreet Economy	Nov 2014	Oct 2015	Nov 2015
Area Economic Index	50.0	44.4	43.7
Loan volume	56.2	71.6	59.6
Checking deposits	57.9	51.2	70.7
Certificate of deposits	37.5	40.9	51.1
Farm land prices	30.0	31.0	34.8
Farm equipment area sales	18.6	10.8	14.2
Home sales	51.0	58.1	56.5
Hiring in the area	61.9	52.4	52.1
Retail Business	50.0	44.4	43.7
Economy 6 months from now	44.7	42.1	38.9

Survey Results at a Glance:

- For a third straight month, the Rural Mainstreet Index fall below growth neutral.
- Retail sales continue to fall as housing purchases remain healthy.
- Bankers estimate that Dodd-Frank has increased compliance costs by 34 percent since 2010.
- Approximately 17.0 percent indicated that new regulations have caused their bank to either abandon or cut back on certain types of loans.

Rural Mainstreet Economy
June '13 – November '15



The Creighton University Rural Mainstreet Index for October fell from September's weak reading, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or energy. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100, sank to 43.7 from October's weak 44.4. This is the fourth straight month that the overall index has declined reflecting weakness stemming from lower agriculture and energy commodity prices and from downturns in manufacturing

Farm and ranching: The farmland and ranchland price index for November rose to 34.8 from 31.0 in October. This is the 24th straight month the index has moved below growth neutral. But, as in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices with prices growing in some portions of the region.

Even with lower farmland prices, more than one-third, or 34.8 percent, of bankers indicated that their banks continue to lend as demanded by farmers with few liquidity issues. This proportion differs little from November 2014.

The November farm equipment-sales index advanced to a very weak 14.2 from October's record low 10.8. The strengthening U.S. dollar and global economic weakness have pushed farm commodity prices down by 14.1 percent over the past 12 months. These weaker prices have discouraged farmers from buying more agriculture equipment and have negatively affected the agriculture equipment dealers and manufacturers. Bankers remain pessimistic about the short and intermediate prospects for agriculture equipment dealers and producers on Rural Mainstreet.

Banking: The November loan-volume index sank to 59.6 from last month's 71.6. The checking-deposit index expanded to 70.7 from October's 51.2, while the index for certificates of deposit and other savings instruments dipped to 38.9 from 40.9 in October.

This month we asked bankers to assess the impact of Dodd-Frank on the compliance costs for their bank since 2010. Bank CEOs estimate that Dodd-Frank pushed up compliance costs by an average of 34.0 percent. This is up from November 2014, when bankers estimated an increase of 29.4 percent.

Clark Lehr, president of First Nebraska Bank in Columbus, Neb said, "Compliance costs amount to about 20 - 25 basis points of our net interest margin. We made a business decision to not let it limit our lending opportunities."

Approximately 17.0 percent indicated that new regulations had caused their backs to reduce or no longer make cer-tain types of agriculture and business loans. According to Pete Haddeland, CEO of the First National Bank in Mahnomen, Minn., "The banking business is at the breaking point with new rules and regulations. It is causing the small banks to consolidate."

Many of the bankers identified how regulations, while well intended, have gone astray. Larry Winum CEO of Glenwood State Bank in Glenwood, Iowa said, "Instead of being more understandable (i.e. regulations) to the cus-tomer, they are more confused. Fortunately, most community banks will continue to do what they always do....find a way to take care of their customers by treating them fairly, despite all the additional regulatory burden."

Hiring: Despite weaker crop prices and pullbacks from businesses with close ties to agriculture and energy, Rural Mainstreet businesses continue to add workers to their payrolls but at a slightly lower pace. The hiring index fell to a still 52.1 from 52.4 in October. Rural Mainstreet businesses continue to hire additional workers but at a much slower pace with job losses for some areas in the region.

Confidence: The confidence index, which reflects expectations for the economy six months out, slid to 38.9 from 42.1 in October. Weaker energy and agriculture commodity prices stemming from the strong U.S. dollar and global economic weakness pushed bankers' economic outlook lower for the month.

Home and retail sales: The November home-sales index improved slipped to 56.5 from 58.1 in October. The November retail-sales index decreased to 43.7 from 44.4 last month. Home sales on Rural Mainstreet have been very healthy over the last several months. On the other hand, Creighton's monthly survey has yet to measure any upturn in retail sales resulting from the downturn in fuel prices. In fact, retail sales continue to fall for Rural Mainstreet.

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
The state's Rural Mainstreet Index (RMI) fell to 43.4 from 43.8 in October. The farmland and ranchland price index plummeted to 19.7 from October's 24.0. Colorado's hiring index for November declined to 47.2 from October's 50.5.

ILLINOIS
The November RMI for Illinois declined to 43.2 from 44.5 in October. The farmland-price index rose to 28.6 from October's 26.8. The state's new-hiring index sank to 50.8 from last month's 51.6. According to Jim Eckert, president of Anchor State Bank in Anchor, Ill., "Farm land prices in our area are off 10-15% from recent highs and appear to be getting softer, due to lower commodity prices."

IOWA
The November RMI for Iowa sank to 44.3 from October's 46.9. Iowa's farmland-price index for November fell to 28.6 from October's 42.5. Iowa's new-hiring index for November decreased to 50.9 from 57.9 in October. In response to greater regulatory oversight, Larry Winum CEO of Glenwood State Bank in Glenwood said, "The cost to comply, and the extended timeframe required to fund these type of loans, along with no concrete benefit to the customer makes it very difficult to offer certain mortgage products."

KANSAS
The Kansas RMI for November increased to 43.9 from October's 42.5. The state's farmland-price index for November advanced to a very weak 28.8 from October's 21.8. The new-hiring index for the state climbed to 50.9 from 49.7 in October.

MINNESOTA
The November RMI for Minnesota slumped to 43.3 from October's 44.0. Minnesota's farmland-price index slumped to 28.5 from 34.2 in October. The new-hiring index for the state declined to 50.8 from last month's 52.9.

MISSOURI
The November RMI for Missouri dipped to 39.4 from 45.5 in October. The farmland-price index expanded to 30.9 from October's 18.8. Missouri's new-hiring index expanded to 51.7 from October's 48.4.

NEBRASKA
The Nebraska RMI for November slumped to 40.1 from 45.2 in October. The state's farmland-price index slipped to 20.8 from October's 21.8. Nebraska's new-hiring index declined to 47.7 from 49.7 in October.

NORTH DAKOTA
The North Dakota RMI for November decreased to a regional low of 31.3 from 34.8 in October. The farmland-price index advanced to 37.0 from 17.8 in September. North Dakota's new-hiring index declined to 31.0 from October's 37.7.

SOUTH DAKOTA
The November RMI for South Dakota fell to 46.9, a regional high, from October's 47.9. The farmland-price index sank to 49.2 from 50.0 in October. South Dakota's new-hiring index inched lower to a healthy 59.0 from October's 60.9.

WYOMING

THE MAINSTEET ECONOMY REPORT
"A monthly survey of community bank CEO's"
December 2015

The November RMI for Wyoming slumped to 42.3 from October's 46.3. The November farmland and ranchland-price index slipped to30.2 from 29.7 in October. Wyoming's new-hiring index dipped to 51.4 from October's 52.8.

THE BULLISH NEWS

- The U.S. added 211,000 jobs in November and the unemployment rate was unchanged at a low 5.0%. This is strong and well above expectations. It pushed the likelihood of a Fed rate hike at its December 2015 meetings to 75%.
- The Case-Shiller home price index for September 2015 was 5.5% above that for September 2014. We are tracking more and more housing price bubbles across the U.S. Rents are also expanding at an unsustainable pace.

THE BEARISH NEWS

- Over the past 12 months, the U.S. energy sector has lost 122,000 jobs (14.2%) and manufacturing sector has shed 36,000 jobs (0.3%).
- Retail sales for October were weak expanding by only 1.7% from October 2014. The holiday buying season is likely to come in weak.

WHAT TO WATCH

- **CPI:** Around Jan. 17 (has not been scheduled at this time), the Bureau of Labor Statistics will announced the consumer price index for December. Note the core CPI, which excludes food and energy. The latest release indicated 1.9% growth. This should be a concern for the Fed since it is close to their target.
- **PMIs:** On Jan. 4, the first business day of January, Creighton and the National Institute for Supply Management will release regional and national PMIs for December. Both PMIs are moving lower. Very weak readings for both, which I expect, will be bearish for stocks.
- **The Yield on the 10-Year U.S. Treasury bond:** On finance.yahoo.com follow the yield on this long-bond yield for evidence or rising inflationary pressures. Yields above 2.7% are early warnings of higher interest rates in the months ahead.

THE OUTLOOK

FROM GOSS:

- I expect In-store holiday sales to come in weak (1% to 2% above 2014) .
- On-line holiday sales to expand by 7% to 8% from 2014.
- A 25 basis point (¼%) increase in short term interest rates from the Federal Reserve on Dec. 16.
- Manufacturing, especially that linked to agriculture and energy will continue to limp along with overall job losses.

OTHER FORECASTS:

- The Conference Board (December 2015). The Conference Board Employment Trends In-dex™ (ETI) decreased in November. The index now stands at 128.69, down from 129.75 in October (an upward revision). The change represents a 2.7 percent gain in the ETI compared to a year ago. "Despite the strong numbers on job creation in the past few months, the Employment Trends Index posted the largest one month decline since the Great Recession, with five of the eight components contributing negatively to the index," said Gad Levanon, Managing Director of Macroeconomic and Labor Market Research at The Conference Board. "While two of the components – initial claims for unemployment and our forecast of job openings – suggest modest adverse developments, their levels are still healthy. However, the past month's weakness in consumer confidence in job growth and the slowdown in temporary help needs careful watching. Overall, there is reason for caution to not linearly extrapolate the current strong growth into 2016. November's decrease in the ETI was driven by negative contributions from five of the eight components."

GOSS EGGS
(RECENT DUMB ECONOMIC MOVES)

- In order to reduce CO2 emissions, Bernie Sanders, candidate for the Democrat presidential nomination, calls for: a carbon tax, and a ban on offshore drilling, fracking for natural gas, and the export of oil and natural gas. He calls for new and massive subsidies for wind and solar energy production. These actions may, or may not, have substantial impacts on CO2 emissions but they will, with 100% probability, cost the taxpayer and the consumer substantial dollars and increase income inequality.

FOLLOW ERNIE

Follow Ernie Goss on Twitter www.twitter.com/erniegoss
For historical data and forecasts, visit our website at: http://www2.creighton.edu/business/economicoutlook/
For ongoing commentary on recent economic developments, visit our blog at: www.economictrends.blogspot.com

This month's survey results will be released on the third Thursday of the month, Dec. 17.