THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

December 2016

Productivity Is Major Manufacturing Job Killer: Not Mexico

Politicians from both sides of the aisle are fond of blaming outsourcing and imported manufac-tured goods for U.S. manufacturing job losses. While it is correct that U.S. manufacturing has lost jobs during a period of solid U.S. job growth "the fault, dear Brutus, is not in our stars, but in ourselves." Between 2000 and 2015, U.S. manufacturing lost 29.6 percent of total sector employment, or 4.7 million production jobs, as the nation experienced a 9.1 percent job gain outside of manufacturing. Over the time period, agriculture lost 76,000 jobs for a 8.5 percent loss. Has any Washington politician recently called for bringing back our lost agriculture jobs?

Between 2000 and 2015, the overall U.S. economy, or gross domestic product, expanded by 38.4 percent while the U.S. manufacturing sector rose by a much stronger 58.8 percent. During this period of time, manufacturing productivity expanded at a pace of 4.6 times that of the overall economy. If manu-facturing productivity had expanded at the same rate as the overall economy, the U.S. would lost 2.2 mil-lion fewer jobs. In other words, rising productivity generated manufacturing job losses of 2.2 million between 2000 and 2015. But who were the beneficiaries of the productivity gains? From 2000 to 2015, adjusted for inflation, manufacturing workers' annual wages increased by 27.9 percent, while manufactur-ing profits expanded from 4.9 percent of manufacturing GDP to 10.6 percent of GDP in 2015. Ernie Goss.

MAINSTREET RESULTS

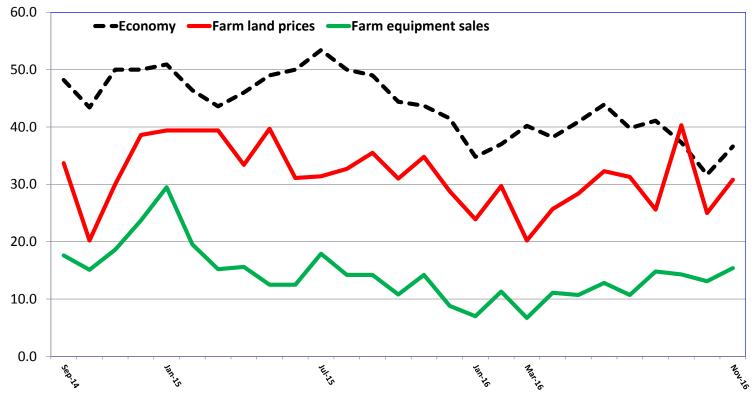
Rural Mainstreet Index Still Weak for November: Negative Cash Flows for One-Fifth of Livestock Farmers

Table 1: The Mainstreet Economy	Nov 2015	Oct 2016	Nov 2016
Area Economic Index	43.7	31.8	36.6
Loan volume	59.6	71.6	52.4
Checking deposits	70.7	63.7	67.1
Certificate of deposits	51.1	40.9	46.4
Farm land prices	34.8	25.0	30.8
Farm equipment area sales	14.2	13.1	15.4
Home sales	56.5	50.1	58.8
Hiring in the area	52.1	45.4	52.5
Retail Business	43.7	36.3	37.8

Survey Results at a Glance:

- For a 15th straight month, the Rural Mainstreet Index fell below growth neutral.
- Farmland prices decline for 36th straight month.
- More than seven of 10 bank CEOs indicated that their bank had increased collateral requirements as a re-sult of declining farm income.
- More than one of four bank CEOS indicated that their bank has made no lending changes due to falling farm income.
- More than one-fifth of livestock producers are expected to report negative cash flow for 2016 (cash ex-penses above cash revenues).
- States trending higher: Iowa and South Dakota; States trending lower: Colorado, Kansas, Illinois, Mis-souri, North Dakota and Wyoming; States treading water: Minnesota, Nebraska.

Rural Mainstreet, Economic Indicators, Sept. 2014 – Nov. 2016
(50.0 = growth neutral)



The Creighton University Rural Mainstreet Index remained weak with a reading again below growth neutral for the 15th 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 index, which ranges between 0 and 100 rose to 36.6 from October's 31.8.

Farm commodity prices continue to slam Rural Mainstreet economies. Over the past 12 months, livestock commodity prices have tumbled by 27.2 percent and grain commodity prices have slumped by 16.6 percent. The economic fallout from this price weakness continues to push growth into negative territory for seven of 10 states in the region.

On average, bankers expect one of five livestock producers, or 20.7 percent, to experience 2016 cash ex-penses greater than cash revenues. This is approximately the share of grain farmers with expected negative cash flows for the year.

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On a more positive note, Michael Flahaven, president of Wenona State Bank in Wenona, Ill., said, "A generous government payment this fall helped keep some farmers' cash flow on the positive side."

Farming and ranching: The farmland and ranchland-price index for November climbed to a frail 30.8 from October's 25.0. This is the 36th straight month the index has languished below growth neutral 50.0.

The November farm equipment-sales index increased to 15.4 from 13.1 from October.

Weakness in farm income and low agricultural commodity prices continue to restrain the sale of agricul-ture equipment across the region. This is having a significant and negative impact on both farm equipment dealers and agricultural equipment manufacturers across the region and is not improving.

Banking: Borrowing by farmers remains solid as the November loan-volume index fell to 52.4 from last month's 71.6. The checking-deposit index climbed to 67.1 from 63.7 in October, while the index for cer-tificates of deposit and other savings instruments expanded to 46.4 from 40.9 in October.

This month bankers were asked to estimate farm loan defaults rate. And just as in July when the same question was asked, bankers expect loan default rates were approximately equal to 5.0 percent for the next year. As a result of falling farm income, 29.3 percent of bankers have made no changes to their lending practices.

Hiring: After moving below growth neutral 50.0 for three of the past four months, the job gauge climbed to 52.5 from October's 45.4. For the region, Rural Mainstreet employment is down by 1 percent over the past 12 months. Over the same period of time, urban employment for the region expanded by 1.5 percent.

Confidence: The confidence index, which reflects expectations for the economy six months out, was up substantially to 39.0 from October's 21.6 but still indicating an intensely pessimistic outlook among bankers. Continuing weak grain and livestock commodity prices pushed banker's economic outlooks to November's and October's frail readings.

Home and retail sales: Home sales remain the positive indicator of the Rural Mainstreet economy with a relatively strong 58.8 reading for November which was up from October's 50.1 reading. The November retail-sales index increased to a very weak 37.8 from October's 36.3.

Despite low inventories of homes for sale, Rural Mainstreet home sales continue on a positive trajectory, but rural retailers, much like their urban counterparts, are experiencing downturns in 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) sank to 51.2 from 68.5 in October. The farmland and ranchland-price index fell to 48.5 from October's 59.7. Colorado's hiring index for November rose slightly to 53.9 from October's 53.1. Colorado job growth over the last 12 months; Colorado Rural Mainstreet, 1.0 percent; Urban Colorado, 2.9 percent.

ILLINOIS
The November RMI for Illinois slumped to 26.6 from 27.5 in October. The farmland-price index expanded to a frail 26.8 from October's 15.6. The state's new-hiring index climbed to 51.5 from last month's 42.8. Said Jim Eckert president of Anchor State bank in Anchor, "Farmland sales in our area are much weaker than a year ago. Prices are softer and even buyers of substantial means are holding off, ex-pecting even lower prices. Illinois job growth over the last 12 months; Illinois Rural Mainstreet, --0.7 per-cent; Urban Illinois 0.9 percent.

IOWA
The November RMI for Iowa soared to 72.1, a regional high, from October's 67.1. Iowa's farmland-price index for November increased to 56.6 from 47.8 in October. Iowa's new-hiring index for November advanced to a strong 66.2 from October's 58.7. According to James Brown, CEO of Hardin County Savings Bank in Eldora, "Cash rents are down $25 to $50 per acre in some cases, but many are closer to what they were last year. If commodity prices stay in this range there will be more significant decreases next year." Iowa job growth over the last 12 months; Iowa Rural Mainstreet, 2.4 percent; Urban Iowa, 0.8 percent.

KANSAS
The Kansas RMI for November slumped to 22.5 from October's 25.7. The state's farmland-price index for November increased to a feeble 25.6 from 18.9 in October. The new-hiring index for Kansas grew to 49.1 from 42.5 in November. Kansas job growth over the last 12 months; Kansas Rural Mainstreet, -1.5 percent; Urban Kansas, 0.2 percent.

MINNESOTA
The November RMI for Minnesota tumbled to 24.4 from October's 26.3. Minnesota's farmland-price index climbed to 27.7 from 23.8 in October. The new-hiring index for the state expanded to a solid 55.7 from last month's 50.0. Minnesota job growth over the last 12 months; Minnesota Rural Mainstreet, -0.8 percent; Urban Minnesota 1.9 percent.

MISSOURI
The November RMI for Missouri decreased to 27.6 from 28.9 October. The farmland-price index fell to 20.9 from October's 25.8. Missouri's new-hiring index rose to 29.1 from 18.7 in October. Missouri job growth over the last 12 months; Missouri Rural Mainstreet, -5.6 percent; Urban Missouri 2.1 percent.

NEBRASKA
The Nebraska RMI for November fell to 37.9 from October's 51.1. The state's farmland-price index tumbled to 45.5 from October's 39.0. Nebraska's new-hiring index climbed to 59.5 from 55.5 in October. Nebraska job growth over the last 12 months; Nebraska Rural Mainstreet, 0.1 percent; Urban Nebraska, 1.2 percent.

NORTH DAKOTA
The North Dakota RMI for November expanded to a very frail 28.9 from October's 20.2. The farmland-price index increased to 27.3 from October's 18.2. North Dakota's new-hiring index improved to 30.7 from 19.2 in October. North Dakota job growth over the last 12 months; North Dakota Rural Mainstreet, -5.1 percent; Urban North Dakota, 0.8 percent.

SOUTH DAKOTA
The November RMI for South Dakota fell to 47.1 from October's much healthier 60.6. The farmland-price index expanded to 45.5 from October's 42.3. South Dakota's new-hiring index jumped to 62.2 from October's 56.7. South Dakota job growth over the last 12 months; South Dakota Rural Mainstreet, 0.7 percent; Urban South Dakota, 3.3 percent.

WYOMING
The November RMI for Wyoming was unchanged for the month with a reading of 19.8 for November. The November farmland and ranchland-price index increased to 23.8 from October's 12.5. Wyoming's new-hiring index expanded to 45.4 from October's 39.9. Wyoming job growth over the last 12 months; Wyoming Rural Mainstreet, -2.9 percent; Urban Wyoming, -3.8 percent.

THE BULLISH NEWS

- According to the second estimate of growth in the U.S. economy, the nation's third quarter GDP advanced by 3.2% from the original estimate of 2.9%. That's getting close to being acceptable.
- In November 2016, the U.S. job market added 178,000 jobs and the unemployment rate sank to a very healthy 4.6%. The unemployment rate for college graduates hit 2.3% while the jobs rate for high school dropouts rose to 7.9%.
- The S&P/Case-Shiller home price index for September climbed by 5.5% from 12-months earlier.

THE BEARISH NEWS

- November average hourly earnings for private-sector workers declined by 3 cents from October to $25.89.
- The Creighton PMI fell below growth neutral for November and the U.S. PMI stood at a weak 53.2 for the month.
- Mortgage rates on a 30-year fixed rate mortgage jumped to 4% from 3.3% since the presidential elections.

WHAT TO WATCH

- **Federal Reserve (Fed) Meetings:** On Dec. 14, the interest rate setting committee of the Fed meets to consider changing short-term interest rates. While they will very likely (98%) to raise short term rates by ¼%, they may also signal another rate hike in the first quarter of 2017. This would bearish news for stocks.
- **CPI**: On Dec. 15 and Jan. 18, the Bureau of Labor Statistics will release the consumer price indices for November and December, respectively.
- **10-Year U.S. Treasury yield**: Since the Presidential election, the yield on the 10-year U.S. Treasury bond has risen by ½% (50 basis points). Due to rising expected inflation, lenders have expanded mortgage rates. If inflationary expectations continue to expand, so will the 10-year bond yield and mortgage rates.

THE OUTLOOK

FROM GOSS:

- **I put the likelihood of a Federal Reserve rate hike in December at 95%. ** I expect the Trump Administration and Congress to cut corporate rates on re-patriated earnings abroad during in the first quarter of 2017. **I expect short term and long term interest rates to continue to move higher through the first quarter of 2017.

OTHER FORECASTS:

- **The National Association of Business Economics:** ""Results from NABE's December 2016 Outlook Survey show that expectations for broad economic growth through 2017 have changed little in the last three months," according to NABE President Stuart Mackintosh, CBE, executive director, Group of Thirty. "Real GDP is expected to increase 1.6% in 2016, before accelerating to 2.2% in 2017. Few economists participating in the survey believe a business cycle peak is imminent. However, the slow pace of growth in recent years may be the 'new normal,' as more than 80% of survey panelists estimate that the potential rate of economic growth will be 2.5% or lower over the next five years. Panelists identified boosting infrastructure investment and reforming tax and regulatory policies as the most important things the incoming administration and Congress can do to lift economic growth during the next presidential term." "Panelists expect oil prices to continue to rebound, long-term interest rates to trend higher, and compensation gains to increase in 2017," said Timothy Gill, CBE, chief economist, American Iron and Steel Institute.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- If incoming President Trump is going to boost infrastructure spending, he is going to have to battle regu-lation as much as funding. For example, it took four years to construct a new runway at the Seattle-Tacoma Airport, but that was preceded by 15 years of applying and receiving the necessary regulatory approval.

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This month's survey results will be released on the third Thursday of the month, Dec. 15.