THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

February 2015

High Wage Jobs Move to Right-to-Work States: Union-Shop States Lose Manufacturing Jobs

Just last month, Mercedes-Benz announced that, in order to become more cost-competitive, it was moving its U.S. headquarters from New Jersey, a union-shop state, to Georgia, a right-to-work state. Right-to-work laws, as authorized by the 1947 Taft-Hartley Act and passed by Georgia, prohibit unions and employers from entering into agreements that require employees to join a union and pay union dues in order to get or keep a job. Twenty-four states have enacted right-to-work laws. The remaining 26 states and DC are union-shop states that require an employee to become a member of the union in order to retain a job. Union leaders maintain that the objective of right-to-work laws is to sow dissension among workers and weaken the labor movement. Proponents of right-to-work laws assert that as a matter of economic freedom, workers should not be required to join a union and that this freedom supports greater economic growth among right-to-work states. Economic data from 2000 to 2013 show that right-to-work states did expand economic growth, as measured by non-inflation-adjusted GDP, by 70.7 percent compared to 59.3 percent for union-shop states. North Dakota was the top performing right-to-work state, and Alaska was the number one performing union-shop state. Digging deeper, it is found that during this same period of time, right-to-work states expanded manufacturing wages and salaries by a median 7.7 percent, while union-shop states experienced a median 3.0 percent decline in manufacturing wages and salaries. In fact, 16 of the 26 union-shop states suffered a decline in manufacturing wages and salaries, while only 6 of the 24 right-to-work states experienced a decrease. Furthermore, the share of manufacturing jobs held by union-shop states fell from 55.1 percent to 53.9 percent over the thirteen year period. But the union-shop states' share of the nation's high-wage heavy manufacturing jobs sank by an even larger three percentage points. Data show that high wage manufacturing industries, normally dominated by unions such as steel and automobile, are moving to and expanding in right-to-work states. With manufacturing firms becoming increasingly mobile, the pressure to pass right-to-work laws will grow in the years ahead. I expect Missouri to be the next state to leave the union-shop coalition. Ernie Goss.

MAINSTREET RESULTS

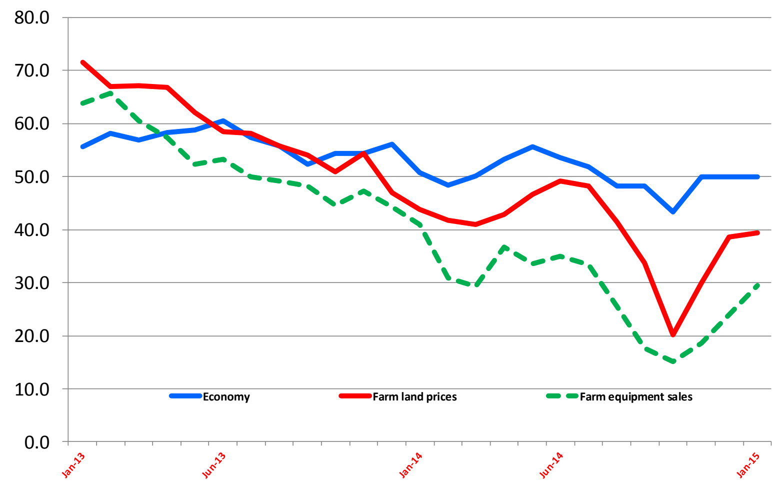
Rural Mainstreet Index Remains Weak for January: Cash Farmland Rents Expected to Fall by 16 Percent in 2015

Table 1: The Mainstreet Economy	Jan 2014	Dec 2014	Jan 2015
Area Economic Index	50.8	50.0	50.9
Loan volume	57.8	76.7	62.1
Checking deposits	68.2	62.1	64.8
Certificate of deposits	41.6	44.0	42.6
Farm land prices	43.8	38.6	39.4
Farm equipment area sales	41.0	23.7	29.5
Home sales	49.3	51.7	45.3
Hiring in the area	53.8	55.2	52.8
Retail Business	46.2	55.3	48.1
Economy 6 months from now	49.2	42.5	43.6

Survey Results at a Glance:

- The Rural Mainstreet Index advanced slightly for January, indicating tepid growth in the regional economy.
- Farmland prices sank for the 14th straight month.
- Bankers expect 2015 cash rents to decline to $214 from last year's $254.
- Approximately 71 percent of bankers reported that lower oil prices have not affected ethanol production in their area.
- One half of bank CEOS reported that rising regulatory costs represent the biggest threat to their banks in 2015.

Rural Mainstreet Economy January '13 – January '15
Creighton University



The Creighton University Rural Mainstreet Index for January rose slightly from December'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, was 50.9 in January, up from December's 50.0.

Lower energy and grain prices along with weaker exports, continue to restrain growth in the rural economy. Ac-cording to Pete Haddeland, CEO of the First National Bank in Mahnomen, Minn., "Lower gas prices are having a positive effect."

Lower corn and fuel prices have yet to impact ethanol producers according to bank CEOs. More than 71 percent reported no change in production for ethanol firms in their area. Only 14.4 percent indicated reduced ethanol pro-duction while 14 percent indicated ethanol production was higher for local ethanol firms.

Farming and ranching: The farmland and ranchland-price index for January advanced to a weak 39.4 from De-cember's 38.6. Much weaker crop prices continue to take air out of the bubble in agricultural land prices. This is the 14th straight month the index has moved below growth neutral. On average, bank CEOs expect 2015 cash rents for farmland to decline to $214 per acre, down significantly from last year's $254.

James Brown, CEO of Hardin County Savings Bank in Eldora, Iowa, said, "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."

The January farm-equipment sales index expanded to 29.5 from 23.7 in December. The index has been below growth neutral for 18 straight months. Farmers have become very cautious regarding equipment purchases even though they have not changed their spending on seed and chemicals.

On the other hand, Jim Ashworth, president of Carlinville National Bank in Carlinville, Ill said, "As usual, following a successful growing season, many grain producers have made year-end equipment purchases as a tax management strategy."

Banking: The January loan-volume index declined to 62.1 from December's 76.7. The checking-deposit index ex-panded to 64.8 from December's 62.1, while the index for certificates of deposit and other savings instruments fell to a very weak 42.6 from last month's 44.0.

This month bank executives were asked to name their biggest economic challenge for 2015. Half of the bankers identified rising regulatory costs as the greatest economic challenge for the year. Approximately, 22.2 percent, 16.7 percent, and 3.7 percent indicated that growing competition, low loan demand and rising loan default, respectively, represented the biggest risk or challenge for 2015.

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. The January hiring index slipped to 52.8 from De-cember's 55.2. Businesses on Rural Mainstreet continue to add jobs at a positive pace even with the weaker agri-culture conditions and lower energy prices. Year-over-year job growth for the region is now approximately 1.4 per-cent, which is down from 1.8 percent recorded last month, but still well above the historic average.

Confidence: The confidence index, which reflects expectations for the economy six months out, advanced slightly to 43.6 from 42.5 in December. Much weaker crop prices and declines in energy prices have negatively affected the outlook of bank CEOs in energy and agriculture dependent portions of the region.

Home and retail sales: The January home-sales index sank to 45.3 from December's 51.7. The January retail-sales index slumped to 43.6 from 55.3 in December.

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 11th straight month, though the index declined to 50.9 from December's 52.5. The farmland and ranchland-price index rose to 50.1 from December's 48.6. Colorado's hiring index for January declined to a healthy 60.8 from 62.3 in January. Colorado Rural Mainstreet job growth for the past 12 months was 1.4 percent.

ILLINOIS
The RMI for Illinois expanded to 50.5 from December's 49.4. The Illinois farmland-price index expanded to 38.2 from 36.9 in December. The new-hiring index fell to 51.3 from 52.9 in December. Illinois Rural Mainstreet job growth for the past 12 months was 1.0 percent.

IOWA
The January RMI for Iowa climbed to 51.6 from December's 48.6. The state's farmland-price index for January expanded to 38.7 from 35.1 in December. Iowa's new-hiring index for January rose slightly to 51.7 from De-cember's 51.5. Iowa Rural Mainstreet job growth for the past 12 months was 2.1 percent.

KANSAS
The Kansas RMI for January slipped to 49.6 from December's 50.6. The state's farmland-price index sank to 38.9 from December's 40.6. The new-hiring index for Kansas declined to 51.9 from 55.9 in December. Kansas Rural Mainstreet job growth for the past 12 months was 0.1 percent.

MINNESOTA
The January RMI for Minnesota was unchanged from December's 51.0. Minnesota's farmland-price index grew to 42.1 from 41.6 in December. The new-hiring index for the state declined to 54.4 from December's 56.7. Minnesota Rural Mainstreet job growth for the past 12 months was 1.5 percent.

MISSOURI
The January RMI for Missouri declined to 54.1 from 54.3 in December. The farmland-price index expanded to 63.7 from December's 63.3. Missouri's new-hiring index decreased to 71.7 from 74.1 in December. Missouri Rural Mainstreet job growth for the past 12 months was 4.6 percent.

NEBRASKA
The Nebraska RMI for January advanced to 49.0 from 48.8 in December. The state's farmland-price index expanded to 34.0 from 32.9 in December. Nebraska's new-hiring index sank to 47.9 from December's 49.7. Larry Rogers, executive vice-president of First Bank of Utica in Utica, Neb., said "It is hard to understand how farmland prices are staying so strong, but around here they are. We are in the heart of seedcorn raising territory." Nebraska Rural Mainstreet job growth for the past 12 months was 0.1 percent.

NORTH DAKOTA
The North Dakota RMI for January rose to 56.8 from December's 56.7. The farmland-price index climbed to 73.0 from 71.7 in December. North Dakota's new-hiring index dipped to 79.1 from December's 80.8. North Dakota Rural Mainstreet job growth for the past 12 months was 7.3 percent.

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SOUTH DAKOTA
The January RMI for South Dakota dipped to 49.4 from December's 49.6. The farmland-price index for January declined to 36.2 from last month's 37.6. South Dakota's new-hiring index slumped to 49.7 from 53.5 in December. South Dakota Rural Mainstreet job growth for the past 12 months was -0.1 percent.

WYOMING
The January RMI for Wyoming grew to 50.8 from December's 50.5. The January farmland and ranchland-price index slipped to 41.6 from December's 42.8. Wyoming's new-hiring index sank to 54.0 from December's 57.7. Wyoming Rural Mainstreet job growth for the past 12 months was 1.3 percent.

THE BULLISH NEWS

- U.S. employers added 257,000 jobs in January and average hourly wages expanded by a strong 0.5% for the month.
- In the 12 months ending in Nov. 2014, the Case-Shiller index indicated that average U.S. home prices rose by 4.3%. This is good news but I am concerned that the growth in the index is coming down too fast.
- The consumer price index (CPI) for Dec. was only 0.8% higher reading for Dec. 2014. This is a good news for bond holders but is well below the Fed's targeted 2%.

THE BEARISH NEWS

- U.S. retail sales for December 2014 declined by 0.9% from November 2014.
- U.S. GDP grew by a paltry 2.4% in 2014. Growth should be in the 4% - 5%.
- The value of the U.S. dollar continues to climb against most major global currencies. These gains are pushing the U.S. trade deficit higher as U.S. goods become less competitively priced abroad.

WHAT TO WATCH

- **CPI:** On February 26, the U.S. Bureau of Labor Statistics (BLS) releases consumer prices (CPI) for January. If this reading remains soft (i.e. monthly growth of less than 0.2%), bond prices should rebound and potentially push the Federal Reserve to delay a rate hike.
- **Retail trade:** On March 12, the Census Bureau releases retail sales for February 2015. Given recent weakness in retail sales, there is real concern about consumer strength. A year-over-year gain of more than 5.5% will be bullish for the U.S. economy and U.S. stocks and bearish for bond prices (higher yields).
- **Wage data:** On Friday March 6, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another monthly gain of 0.4% or more will encourage the Federal Reserve to raise short term interest rates earlier than expected. Currently the market expects a rate hike in June 2015.

THE OUTLOOK

FROM GOSS:

- Housing price growth to move even lower in the months ahead.
- Mario Draghi, head of the European Central Bank, to make the same mistake made by the U.S. Federal Reserve by launching a sovereign bond buying program. The European economy does not need lower interest rates. German bond rates are already as low as 0.5% (yes you read that right). Europe needs structural economic reform that encourages work rather than leisure. This is outside the purview of the ECB.
- The U.S. trade deficit is about to soar. If your business depends on exports, it is going to be tougher in the months ahead.

OTHER FORECASTS:

- National Association of Business Economics (NABE) January 2015 Business Conditions Survey: ""For many companies, the great deflation in oil prices was the most consequential economic shock of 2014. Three-quarters of survey panelists expect lower oil prices to impact their business in 2015, with most anticipating a positive impact," said Survey Chair Jim Diffley, senior director, IHS. "Investment by the oil and gas industry has been a key driver in US economic growth. The big question for 2015 is the impact of lower prices on that investment and its concomitant supply chain. Sales growth improved slightly during the fourth quarter of 2014. Fifty-four percent of respondents reported rising sales at their firms in the fourth quarter survey compared to 49% in the October survey. Falling sales were reported by 15% of respondents, a larger share than was reported in the third quarter (7%). Also, a solid majority of survey panelists from all sectors expect that sales will rise during the first quarter of 2015."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- President Obama's recent plan to offer free community college tuition is so wrong on so many fronts. First, it injects more federal interference into higher education. Second, the American taxpayer cannot afford it. Third, and most importantly, students need to have "skin in the game" to prevent over-consuming of this "free" edu-cation. The economy needs more community college educated workers but it is a community issue, not a fed-eral one.

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