THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

February 2014

Can the Poor Afford Solar Energy? Low Income Consumers Baked by High Priced Alternative

Between 2008 and 2012, according to the Bureau of Labor Statistics, Americans making less than $20,000 increased the share of their paycheck going to cover utility and fuel bills from 25% to 29%. During this same period of time, Americans earning more than $70,000 decreased the proportion of their in-come spent on utilities and fuel from 5.4% to 5.0%. That is, the percent of income devoted to utilities and fuel is significantly higher and rising for low income consumers, but substantially lower and falling for higher income consumers. At the same time, electricity generation by solar/wind grew by 73% but de-clined by 4% for fossil fuels. This occurred despite the fact that according to the U.S. Department of En-ergy, the costs of solar electricity generation is approximately double the that of conventional coal and almost triple that of natural gas. In addition to higher direct costs, all taxpayers are picking up the tab for the failure of solar energy companies. Federal tax supported Solyndra, Evergreen Aolar, and Spec-traWatt filed for bankruptcy in August 2011 alone. In fact according to GTM Research, one-fifth of tax subsidized U.S. solar panel manufacturing has folded as of August 2011. Germany has demonstrated the folly of current U.S. solar policy. Despite 2013 renewable subsidies in Germany of 16 billion Euros ($21 billion), electricity prices have soared by 17% over the past 4 years. No wonder just last month, German Chancellor Angela Merkel backed a plan to cut German's green energy subsidies while the U.S. moves steadfastly into the costly solar abyss. Unfortunately, the U.S. taxpayer and consumer, especially those of low income, are getting scorched by the expansion of solar electricity generation with no end in sight. Ernie Goss.

MAINSTREET RESULTS

Weak 2014 Start for Rural Mainstreet Economy: Farmland Price Index Lowest Since 2009

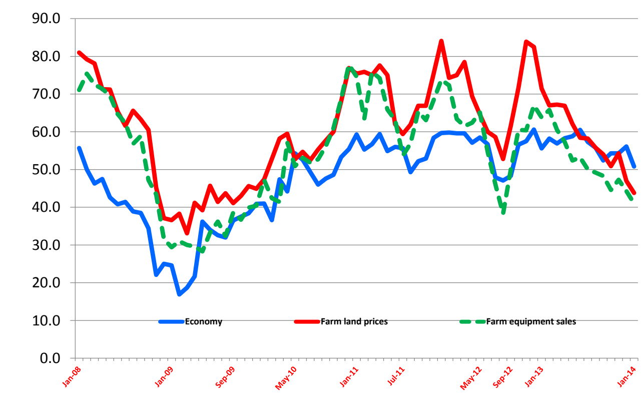
Tables 1 below summarizes the findings from the November survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	Jan. 2013	Dec. 2013	Jan. 2014
Area Economic Index	55.6	56.1	50.8
Loan volume	39.0	66.7	57.8
Checking deposits	78.1	66.0	68.2
Certificate of deposits	42.2	37.2	41.6
Farm land prices	71.5	47.0	43.8
Farm equipment area sales	63.8	44.3	41.0
Home sales	55.6	53.1	49.3
Hiring in the area	52.4	56.9	53.8
Retail Business	44.5	54.7	46.2
Economy 6 months from now	55.5	47.0	49.2

Survey Results at a Glance:

- Rural Mainstreet Index indicates much weaker growth for January.
- Farmland price index sinks to lowest level since October 2009.
- Farm equipment sales index down for the seventh straight month.
- Almost 80 percent of bank CEOs expect EPA's cut in the 2014 ethanol blending level to negatively affect the economy.
- Approximately 62.5 percent of bankers recommend ending extended unemployment insurance benefits immediately.

Rural Mainstreet Economy January '08 – January '14



Growth for the Rural Mainstreet economy plummeted, according to the January survey of bank CEOs in a 10-state area.

Overall: The Rural Mainstreet Index (RMI), which ranges between 0 and 100, with 50.0 representing growth neutral, fell to 50.8 from December's much healthier to 56.1. The overall index for the Rural Mainstreet Economy continues to indicate that the areas of the nation highly dependent on agriculture and energy continue to expand at a positive but slower pace. Over the past year, corn, soybean and wheat prices have declined by 41 percent, 10 percent and 16 percent, respectively. Weaker farm prices are clearly negatively influencing the rural economy. Additionally, almost 80 percent of bank CEOs expect the EPA's cut in ethanol blending level to negatively affect the Rural Mainstreet economy.

Farming and ranching: The farmland and ranchland-price index plunged to 43.8, its lowest level since October 2009, and was down from December's 47.0. This is the second straight month that the farmland and ranchland-price index has moved below growth neutral. As agriculture commodity prices have moved lower, so have farmland prices. On the other side of the economic coin, ranchers and livestock producers are experiencing record prices and a very healthy economic outlook.

Farm equipment sales remained below growth neutral for the seventh straight month. The January index sank to a weak 41.0, the lowest reading since October 2009, and down from December's 44.3. Over the past year, commodity prices for all farm products have declined by roughly 8 percent. This has significantly reduced farmers' willingness to undertake major agriculture equipment purchases.

Scott Tewksbury, CEO of Heartland State Bank in Edgeley, N.D., said, "Reduced commodity price outlook for 2014 together with reduced 2013 yields have damped demand for capital purchases and slowed the rush to rent added land at any price."

Banking: The loan-volume index declined to 57.8 from 66.7 in December. The checking-deposit index climbed to 68.2 from December's 66.0, while the index for certificates of deposit and other savings instruments increased to 41.6 from December's frail 37.2.

Jim Ashworth, president of Carlinville National Bank in

Carlinville, Ill., reported, "There was a flurry of activity near year-end by grain farmers structuring their 2013 income and taxes, paying ahead for inputs and equipment upgrades."

This month bankers were also asked when the Federal Reserve (Fed) should end its $85 billion monthly bond-buying program. Almost one of six bankers think the program should be ended by the middle of 2014, or well ahead of the Fed's recently announced schedule. Almost one-half of the bankers, or 47.7 percent, recommend that the Fed adjust the monthly bond-buying program as incoming economic data dictate.

Hiring: Rural Mainstreet businesses continue to hire. The January hiring index declined to a still solid 53.8 from 56.9 in December. Businesses in rural areas of the region continue to add jobs. In fact, the region is now only slightly below the level achieved shortly before the national recession began in December 2007.

We asked bank CEOs their recommendation for extending long-term unemployment benefits. The bankers were less than enthusiastic with 62.5 percent indicating that they should not be extended. For bankers endorsing the extension, 29.7 indicated that any benefit expansion should be matched with cuts elsewhere in the budget. Only 7.8 percent recommended extending with no conditions.

Confidence: The confidence index, which reflects expectations for the economy six months out, rose to a still weak 49.2 from December's 47.0. Despite the recent Congressional agreements on budget items, the lack of a farm bill and lower agriculture commodity prices restrained economic confidence. It is not just corn prices but also available supply that concerns bankers. David Callies, CEO of Miner County Bank in Howard, S.D., said, "There is major concern for the coming year on ag cash flow because of low corn prices and high corn inventory."

Home and retail sales: The January home-sales index fell below growth neutral to 49.3 from December's 53.1 and November's even stronger 56.2. The January retail-sales index sank to a fragile 46.2 from December's much healthier 54.7. Higher mortgage rates and lower agriculture commodity prices cooled rural housing and retail sales strength significantly.

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

For the 16th straight month, Colorado's Rural Mainstreet Index (RMI) remained above 50.0, though it slipped to 51.0 from 55.6 in December. The farmland and ranchland-price index tumbled to 41.0 from December's much stronger 69.4. Colorado's hiring index for January fell to 51.4 from December's 58.7.

ILLINOIS

After moving above growth neutral for 15 straight months, the RMI for Illinois declined to 49.7 for January and was down from December's 54.1. The Illinois farmland-price index plunged to 31.7 from December's 47.3. The state's new-hiring index fell to 44.0 from 48.9 in December.

IOWA

The January RMI for Iowa declined to 50.8 from December's 55.3. The farmland-price index for January sank to 38.1 from December's 52.3. Iowa's new-hiring index for January sank to 49.1 from December's 53.9.

KANSAS

The Kansas RMI for January dipped to 52.2 from December's 53.6. The farmland-price index for January advanced to 56.2 from December's 48.2. The state's new-hiring index soared to 63.6 from December's 50.2.

MINNESOTA

The January RMI for Minnesota fell to 48.8 from 53.6 in December. Minnesota's farmland-price index for January expanded to 50.6 from December's 40.9. The new-hiring index rose to 66.7 from 44.7 in December.

MISSOURI

The January RMI for Missouri slumped to 52.7 from 59.0 in December. The farmland-price index for January declined to a strong 66.5 from December's 75.4. Missouri's new-hiring index decreased to 71.8 from 78.2 in December.

NEBRASKA

After moving below growth neutral in January of last year, Nebraska's Rural Mainstreet Index has been above growth neutral for 12 straight months. The January RMI slipped to 51.2 from 54.4 in December. The farmland-price index for January dipped to 44.4 from 48.0 in December. Nebraska's new-hiring index increased to 54.1 from 50.1 in December.

NORTH DAKOTA

The North Dakota RMI for January climbed to 57.1 from 56.3 in December. The farmland-price index declined to 66.3 from 70.2 in November. North Dakota's new-hiring index rose to 65.0 from December's 61.0.

SOUTH DAKOTA

The January RMI for South Dakota fell to 51.3 from December's 55.8. The farmland-price index for January sank to 46.1 from 51.6 in December. South Dakota's new-hiring index for January advanced to 55.5 from December's 53.3.

WYOMING

The January RMI for Wyoming sank to 49.1, down from December's 54.5. The January farmland and ranchland-price index sank to 38.9 from December's 46.4. Wyoming's new-hiring index for January improved slightly to 49.8 from December's 49.0.

THE BULLISH NEWS

- The U.S. bond market is the "healthiest horse in the glue factory." As a result, capital is flowing into the U.S. bond market from across the globe pushing long term rates even lower.
- U.S. gross domestic product expanded by an annualized and seasonally adjusted rate of 3.2 percent in the fourth

quarter of 2013.

- 2013 housing starts were the highest since 2007 despite housing starts falling 9.8% to a seasonally adjusted annual pace of 999,000 in December following a surge in November to the highest level of the year — 1.1 million.

THE BEARISH NEWS

- The U.S. economy added only 113,000 for January signaling a slow start economic start to the new year.

- U.S. trade deficit expanded by 12% to $38.7 billion for November. A sharp decline in exports was the culprit.

WHAT TO WATCH

- **PMIs:** On March 3, the National Institute for Supply Management and Creighton University release the national and regional surveys of supply managers for February. Another significant decline for the national reading (i.e. below growth neutral 50.0) will be a real economic warning signal pulling down stock prices, pushing up bond prices and sinking bond yields.

- **Jobs:** On Friday March 8, the U.S. Bureau of Labor Statistics (BLS) will release employment report for January. Another weak reading, something below 125,000 jobs added, will push bond prices up and yields or interest rates lower.

- **CPI:** On February 20, the Bureau of Labor Statistics releases consumer price indices for January. A monthly increase of 0.1% or less will encourage the Fed to maintain its monthly bond buying program at February levels thus keeping long-term interest rates low.

THE OUTLOOK

FROM GOSS:

- U.S. GDP growth to drop from 3.2% in Q4, 2013 to 2.0% in Q1, 2014.

- Contrary to expectations, long-term interest rates, including mortgage rates, to remain low through the first quarter of 2014.

- U.S. housing price growth to slow in the first half of 2014.

OTHER FORECASTS:

- Dodd-Frank and Community Banks. American Banking Association. "The Dodd-Frank Act made significant changes to how the Federal Deposit Insurance Corporation is funded and how large the deposit insurance fund can be. It raises the insurance limit to $250,000, making up for the impact of inflation since 1980 when the $100,000 limit was set. It also gave the FDIC responsibility for resolving large, systemically important banks, which broadens the agency's mission dramatically beyond providing insurance to depositors. It also attempts to deal with the "too big to fail" problem. Because additional revenue to the FDIC counts as revenue for the federal budget, Congress used these provisions to "pay for" costly provisions elsewhere in Dodd-Frank, setting a terrible precedent to use premiums as a source of revenue for other government spending programs." continued at: http://www.aba.com/aba/documents/dfa/dfguide.pdf.

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- In his State of the Union address, President Obama had some very solid proposals on trade. Unfortu-nately, the Democrats in Congress will not go along with them. This is economic lunacy on the part of Democrat Senator Harry Reid who rejects giving the President fast-track trade authority.

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