THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

July 2017

U.S. Economy Rebounds, But Wages & Salaries Do Not: 10 of 23 Occupations Lost Ground

In Nebraska, a state with a 3.0% unemployment rate, Bryan Health, a Lincoln non-profit hospital, recently posted 200 job openings from cafeteria workers to respiratory therapists. On the same day the U.S. Bureau of Labor Statistics announced that the nation's unemployment rate sank below 5.1% for the 22nd straight month. Sur-prisingly, this "white hot" labor market, has yet to push wage growth above a snail's pace.

The U.S. economy exited the 2007-09 recession in July 2009. Despite consistent, but slow gross domes-tic product (GDP) growth since then, wages and salaries of American workers, adjusted for inflation, have actually declined for 10 of 23 occupations examined. Furthermore since the recession ended, U.S. workers have, on aver-age, increased their inflation-adjusted salaries by only $1,000, or slightly less than 2%.

Who were the big losers? Between 2009 and 2016 annual pay fell by: 1) $6,074, or 7.4%, for Architects and Engineers; 2) $8,578, or 5.9%, for Lawyers; and 3) $2,976, or 5.9%, for Social Workers.

Who were the big winners? Between 2009 and 2016 yearly pay climbed by: 1) $10,483, or 14.0%, for Computer Programmers; 2) $5,824, or 16.0%, for Welders; and, 3) $5,636, or 8.4%, for Registered Nurses.

Between 2001 and 2009, compounded annually, worker productivity, or output per hour, expanded yearly by 2.6% and wages climbed by 3.1%. However from 2009 to 2016, productivity growth dropped to an annual compound rate of 0.9% and wage growth fell to an annual compound rate of 1.9%. Clearly, lower labor productivity has contributed significantly to pitiful wage gains since 2009. In order to expand wages at an acceptable pace, workers and industry need to upgrade education and skill levels. Whether it is truck driving, welding, plumbing, or information technology, American workers and industry are failing to upgrade their skill levels and productivity growth has tumbled as a consequence. Ernie Goss.

MAINSTREET RESULTS

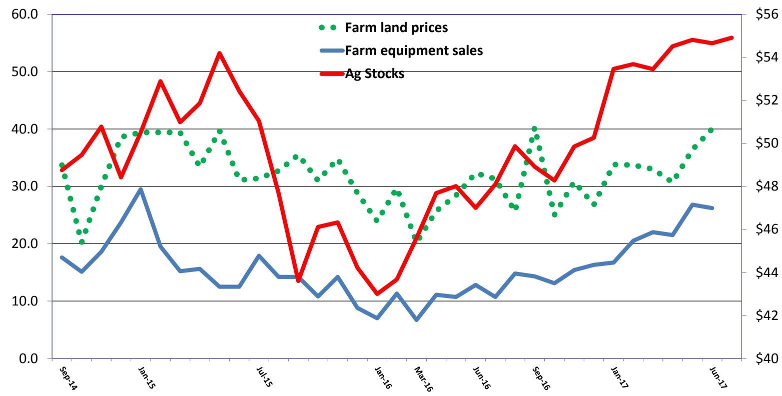
Rural Mainstreet Stuck at Growth Neutral
Bank CEOs Expect Another Three Percent Decline in Farmland Prices

Table 1: The Mainstreet Economy	May 2016	Apr 2017	May 2017
Area Economic Index	40.9	44.6	50.1
Loan volume	77.9	81.6	74.5
Checking deposits	45.5	52.2	48.9
Certificate of deposits	40.9	44.6	38.9
Farm land prices	28.4	30.7	36.4
Farm equipment area sales	10.7	21.5	26.8
Home sales	61.6	56.8	63.6
Hiring in the area	43.2	57.8	60.1
Retail Business	36.0	40.2	48.9

Survey Results at a Glance:

- The overall index slipped slightly to growth neutral.
- More than three-fourths of bank CEOs report a shortage of qualified or skilled workers as having a nega-tive impact on economic growth.
- On average, bankers project that farmland prices will decline by another three percent over the next 12 months.
- Due to weak farm income, almost one fourth of bankers reported rejecting a higher percentage of farmer loan applications and approximately 60.9 percent reported boosting collateral on farm loans.
- Kansas, North Dakota, South Dakota, and Wyoming below growth neutral for month.

Rural Mainstreet, Economic Indicators, Sept. 2014 – June 2017
(50.0 = growth neutral)



After dropping below growth neutral for 20 straight months, the Creighton University Rural Mainstreet Index moved to the 50.0 threshold for May and June according to the latest 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, dipped to 50.0 from 50.1 in May. Prior to May, the last time the overall index was at or above growth neutral was August 2015.

Stabilizing and slightly improving farm commodity prices helped push the overall index at or above growth neutral for the last two months though gain prices remain below breakeven for most farmers, recent improvements in cattle and hog prices have boosted the overall index for Rural Mainstreet Economy to growth neutral.

One bank CEO reported that the recent rally in cattle prices, has been a positive with early contracts."

Jim Eckert, president of Anchor State Bank in Anchor, Illinois, said, "Crops in Central Illinois are looking better than in other areas of the state, but the area is much dryer than north or south and there is not much prospect of rain in the immediate future."

Farming and ranching: The farmland and ranchland-price index for June rose to 40.0, its highest level since September of last year, and up from May's 36.4. This is the 43rd straight month the index has languished below growth neutral 50.0.

This month, and in August 2016, bank CEOs were asked to project the change in farmland prices for the next year. On average, bankers this month project a 3.1 percent decline in agriculture over the next 12 months. This is a significant improvement from August when bankers expected a decline of 7.0 percent for the next 12 months.

The June farm equipment-sales index fell to 26.2 from 26.8 in

May. This marks the 46th consecutive month the reading has fallen below growth neutral 50.0.

Banking: Borrowing by farmers was very strong for June as the loan-volume index climbed to 78.3 from last month's 74.5. The checking-deposit index was unchanged at 48.9, while the index for certificates of deposit and other savings instruments sank to 41.3 from 46.6 in May.

Due to weak farm income, almost one fourth of bankers report rejecting a higher percentage of farmer loan applications and approximately 60.9 percent reported boosting collateral on farm loans.

However, James Brown, CEO of Hardin County Savings Bank in Eldora Iowa indicated that bank reac-tions have been complex. Brown said that, "The vast majority of our farm customers have not been asked for additional collateral and have not required any restructuring. If we have another year like the last two, there will definitely be some." Cattle profits are definitely a bright spot at the moment, but just not very many cattle feeders anymore."

Hiring: The job gauge dropped to a strong 58.9 from May's 60.1. Rural Mainstreet businesses not linked to agriculture increased hiring for the month at a healthy pace.

Confidence: The confidence index, which reflects expectations for the economy six months out, expanded to a weak 48.9 from 46.6 in May, indicating a continued pessimistic outlook among bankers. As livestock prices have improved, banker's economic outlook has advanced, but still reflects lackluster economic confidence.

Home and retail sales: Home sales moved higher for the Rural Mainstreet economy, but at a slower pace than for May. The June reading decreased to 58.8 from May's very healthy 63.6. The June retail-sales index plummeted to 41.3 from May's 48.9. Much like their urban counterparts, Rural Mainstreet retailers are experiencing significant pullbacks 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) advanced to 50.2 from 48.4 in May. The farmland and ranchland-price index expanded to 40.1 from May's 35.2. Colorado's hiring index for June rose to 62.1 from May's 56.9.

ILLINOIS
The June RMI for Illinois increased to 50.6 from 49.2 in May. The farmland-price index expanded to 40.4 from May's 29.4. The state's new-hiring index advanced to 64.0 from last month's 55.1. Jeff Bonnett, president of Havana National Bank in Havana said, "The most relevant factor to the downturn in our economy, like the rest of the State of Illinois, with the exception of Chicago, is the lack of leadership in state government. We have not had a budget, let alone a balanced budget for three years now. The impact on state universities & other state agencies along with doctors, dentists, pharmacists and health care specialists has been drastic."

IOWA
The June RMI for Iowa climbed to 50.5 from 49.4 in May. Iowa's farmland-price index for June rose to 40.5 from 34.9 in May. Iowa's new-hiring index for June jumped to 64.3 from May's 60.8. James Brown, CEO James Brown, CEO of Hardin County Savings Bank in Eldora Iowa indicated that "Cattle profits are definitely a bright spot at the moment. Just not very many cattle feeders anymore."

KANSAS
The Kansas RMI for June sank to 47.6 from May's 48.8. The state's farmland-price index increased to 39.2 from 35.5 in May. The new-hiring index for Kansas declined to 55.9 from 58.9 in May.

MINNESOTA
The June RMI for Minnesota climbed to 51.7, a regional high, from May's 50.6. Minnesota's farmland-price index rose to 41.1 from 36.7 in May. The new-hiring index for the state climbed to a strong 68.1 from last month's 66.9. According to Pete Haddeland, CEO of the First National Bank in Mahnomen, "Farmland values are holding steady."

MISSOURI
The June RMI for Missouri fell to 51.6 from 53.7 in May. The farmland-price index improved to 41.0 from May's 38.8. Missouri's new-hiring index declined to a strong 68.1 from 80.8 in May.

NEBRASKA
The Nebraska RMI for June climbed to 51.4 from May's 50.5. The state's farmland-price index rose to 40.9 from 36.7 in May. Nebraska's new-hiring index expanded to 67.4 from 66.4 in May. As reported by one Nebraska bank CEO, "Dryness and heat are starting to have an effect on crops in Northeast Nebraska."

NORTH DAKOTA
The North Dakota RMI for June rose to 48.7 from May's 45.7. The farmland-price index bounced higher to 40.9 from May's 33.4. North Dakota's new-hiring index jumped to 55.4 from 45.1 in May.

SOUTH DAKOTA
The June RMI for South Dakota slipped to 47.2 from May's 47.3. The farmland-price index increased to 38.1 from May's 34.5. South Dakota's new-hiring index sank to 48.9 from May's 52.1.

WYOMING
The June RMI for Wyoming advanced to a weak 48.1 from May's 47.5. The June farmland and ranchland-price index expanded to 38.7 from May's 34.7. Wyoming's new-hiring index sank to 52.7 from 53.2 in May.

THE BULLISH NEWS

- The nation added 222,000 jobs for June even as the unemployment rate rose to a very healthy 4.4%.
- More Americans entered the workforce in June with a labor force participation rate of 62.8%, up slightly from May's 62.7%.
- The Case-Shiller home price index for the U.S. rose 5.5% in April from one year earlier.

THE BEARISH NEWS

- Worker wages rose only 2.5% in June from one year earlier. This is only slightly above the inflation rate.
- Due to a drop in expected inflation, the price of gold fell to its lowest level since March.

WHAT TO WATCH

- **Jobs Report on August 4:** The Bureau of Labor Statistics will release its employment report for July. Another weak reading on wages could push the Federal Reserve to forego another 2017 rate hike.
- **Consumer Price Index on July 14**: The Bureau of Labor Statistics will release the inflation gauge for July. An annualized increase below 1.5% will be bullish for bond prices and sink both short and long-term interest rates.
- **Yield on 10-Year US Treasury Bond**: This yield will rise as inflation advances. Current yield is 2.38% and still well below the historical average.

THE OUTLOOK

FROM GOSS:

- I expect **a Federal Reserve rate hike at the September FOMC meeting; **The Fed to begin reducing its $4.5 trillion portfolio of U.S. Treasury bonds and mortgage backed securities in August. This will tend to put slight upward pressures on long-term U.S. interest rates. **Home price growth to cool a bit in the months ahead. Even so, year-over-year price growth will remain in the 3.5%-5.0% range, on average.

OTHER FORECASTS:

- **National Association of Business Economics (NABE) (July 2017) Summary:** "Despite soft economic growth in the first quarter of 2017, results from the NABE June 2017 Outlook Survey show that panelists' expectations have been revised downward only slightly compared to those in the March 2017 Outlook Survey," said NABE President Stuart Mackintosh, CBE, executive director, Group of Thirty. "The weakness in the first quarter is expected to be temporary, with real gross domestic product growth projected to bounce back to an annualized rate of 3.1% in the second quarter of 2017, and to about a 2.5% pace in the second half of the year. The median forecast calls for average annual GDP growth of 2.2% for 2017 as a whole, and 2.4% for 2018. Both these forecasts are down 0.1 percentage points from the March 2017 estimates. Forecasts of other key indicators are largely positive. Nonfarm payroll growth is forecast to average 170,000 jobs per month in both 2017 and 2018. Inflation is expected to remain in check. More than 9 out of 10 panelists believe there is a 25%-or-lower probability of a recession in the U.S. this year, and more than three-quarters of the panel believe there is a 25%-or-lower probability of a recession in 2018. Nearly 60% of panelists indicate that the balance of risks to the economy through 2018 is weighted to the upside."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- European Union officials have begun assembling a list of US goods, including Kentucky whiskey, Florida orange juice and Wisconsin dairy products, to target for tariff retaliation over Donald Trump's plans to limit steel imports. Both sides are wrong, wrong, wrong.

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This month's survey results will be released on the third Thursday of the month, July 20.