THE MAINSTREET ECONOMY REPORT

March 2013

"A monthly survey of community bank CEO's"

Government Bailouts & the Economic Recovery: Never Has So Much Been Done to Achieve So Little

A year after the start of , the Bush Administration launched a $168 billion stimulus package in 2008, which was followed by the Obama 2009 stimulus package of $787 billion. Meanwhile, the Federal government ran aver-age yearly deficits (also a stimulus) of $936 billion average for 2008 and 2009 (the Bush deficits), and $1.15 trillion per year for the last four years of the Obama Administration. On top of the stimulus spending, taxpayer dollars bailed out AIG, Bank of America, Citigroup, GM, Chrysler, Fannie Mae, Freddie Mac. Simultaneously, the Federal Reserve reduced short-term interest rates to practically zero percent, pushed long-term U.S. Treasury bond rates- adjusted for inflation--into negative territory--and bailed out non-banks such as Goldman Sachs and Morgan Stanley with ultra-low interest rate loans. As part of this effort, the Fed launched three bond buying programs, labeled QE2 and QE3, and have thus far purchased almost $3 trillion in U.S. Treasury bonds. But rather than sparking spending by consumers and businesses, these Fed "cheap money" and government over-spending policies have pushed investors into riskier ventures such as farmland and U.S. stocks and bonds. What did the U.S. economy get for it? Since the recovery began in 2009, annualized GDP growth has been 2.1%, significantly less than the historical average of 3.5%. The most recent growth number was a puny 0.1%, or almost back in recessionary territory. Moreover since the beginning of the recover, annual wage growth has been less than one percent while the current unemployment rate remains almost three percentage points over the rate at the beginning of the recession. In terms of the nations most recent recession, it can be successfully argued that, "Never has so much been done to achieve so little." Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Index Remains Healthy:
Corn Prices Below $3.86 Would Threaten Loan Repayments

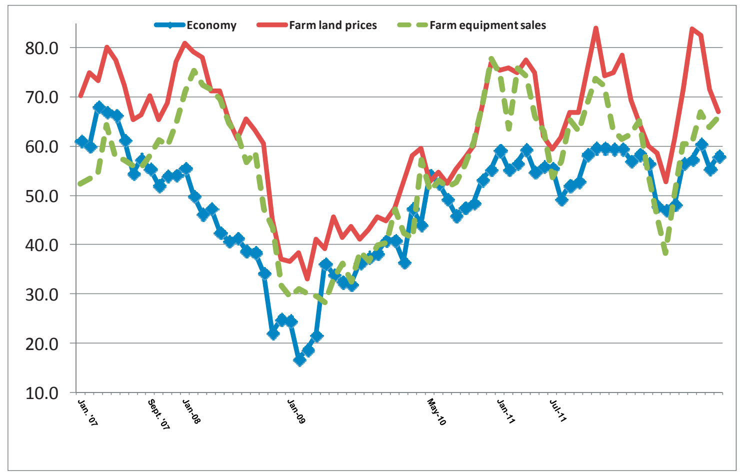
Tables 1 below summarizes the findings from the March survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	Feb. 2012	Jan. 2013	Feb. 2013
Area Economic Index	59.6	55.6	58.2
Loan volume	31.2	39.0	46.7
Checking deposits	64.5	78.1	67.2
Certificate of deposits	50.0	42.2	47.6
Farm land prices	75.0	71.5	67.0
Farm equipment area sales	63.4	63.8	65.8
Home sales	51.5	55.6	65.0
Hiring in the area	53.7	52.4	54.9
Retail Business	50.0	44.5	46.6
Economy 6 months from now	60.3	55.5	51.7

January Survey Results at a Glance:

- Rural Mainstreet Index climbs for the fifth time in the past six months.
- Farmland price growth slows for the third straight month.
- On average, bankers reported that corn prices below $3.86 would threaten repayment of farm loans.
- On average bankers estimated a breakeven corn price of $4.84 per bushel on rented farmland.
- Only 15 percent of bankers expect significant livestock selloffs or one-third or more if drought continues.

Rural Mainstreet, Jan. '07 – Feb. '13



After declining during the summer drought, the Rural Mainstreet economy expanded for the fifth time in the past six months to the monthly 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, climbed to a healthy 58.2 from 55.6 in January. The February RMI is down only slightly from the reading for February of last year. I anticipate that economic growth for the region will continue on a slow but positive pace.

Farming: After peaking at 83.9 in November of last year, the farmland-price index has now declined for three straight months. The farmland price index declined to a still strong 67.0 from January's 71.5 This is the 37th consecutive month that the farmland-price index has risen above growth neutral. The farm equipment sales index rose to 65.8 from 63.8 in January. Based our surveys over the past several months, 2013 is stacking up to be a good year for farm income according to bankers. This is showing up in healthy growth in farmland prices and the sales of farm equipment.

Jeffrey Gerhart, CEO of the Bank of Newman Grove, Newman Grove, Neb and chairman of the Independent Community Bankers of America said that, "We are watching to see how the area pastures will do this spring. Some pastures may not be able be grazed this year. Hay crops could also be significantly impacted should the drought continue."

This month bankers were asked several questions related to farm commodity prices. First, bankers were asked at what corn price would put farm loan repayments in jeopardy. On average, bankers reported that corn prices below $3.86 would threaten repayment of farm loans. Second, bankers were asked the breakeven corn price for farmers that rent their land. On average bankers estimated a breakeven corn price of $4.84 per bushel.

The University of Illinois Department of Agricultural Economics projected 2013 corn prices of $5.73 per bushel http://tinyurl.com/adw6gdy . Given this projection along with current strong balance sheets and cash flow of farmers, agriculture repayments and profitability for farmers should be very similar to 2012. Even so, significant changes in Federal Reserve policy or international trade disruptions could pose a threat to the Rural Mainstreet economy in 2013.

According to Dale Bradley, CEO of The Citizens State Bank, in Miltonvale Kan., "Farmers should be very cautious in 2013 and 2014 and be conservative from an economic standpoint."

Banking: For the fourth time in the past five months, the loan-volume index moved below growth neutral. The index rose to a weak 46.7 from January's frail 39.0 and well ahead of last February's 31.0. The checking-deposit index slipped to 67.2 from 78.1 in January while the index for certificates of deposit and other savings instruments rose to 47.6 from 42.2 in January. Banking data continue to reflect healthy farm income and an expanding Rural Mainstreet economy.

Hiring: February's hiring index advanced to 54.9 from 52.4 in January. New hiring in the region continues to expand at a modest pace. While job growth remains slow, it is well up from one year ago when job growth was at virtual standstill.

Confidence: The confidence index, which reflects expectations for the economy six months out, softened to 51.7 from 55.5 in January. The failure to pass a new farm bill and the impending spending sequestration combined to lower confidence in future Rural Mainstreet economic growth.

Home and retail sales: The February home-sales index soared to 65.0 from January's 55.6. The February retail-sales index advanced to a feeble 46.6 from January's 44.5. Much like the national numbers, Rural Mainstreet retailers are experiencing cuts in overall sales since the beginning of the year.

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.

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, president of CNB Community Bank of Greeley, Neb., created the monthly economic survey in 2005.

KANSAS
The Kansas RMI for February sank to 47.2 from 53.7 in January. The farmland-price index fell to 60.0 from 75.4 in January. The state's new-hiring index declined to 47.8 from 48.5 in January.

MINNESOTA
The February RMI for Minnesota rose to 73.4 from 71.2 in January. Minnesota's farmland-price index declined to 83.3 from January's 85.1. Minnesota's new-hiring index advanced to 63.3 from January's 59.7.

MISSOURI
The February RMI for Missouri soared to 64.5 from January's 51.5. The farmland-price index for February decreased slightly to 67.5 from January's 67.8. Missouri's new-hiring advanced to 52.8 from 48.2 in January.

NEBRASKA
After moving below growth neutral for January, Nebraska's Rural Mainstreet index broke above growth neutral for February. The February RMI expanded to 52.7 from January's 48.8. The farmland-price index slipped to 60.7 from January's 66.2. Nebraska's new-hiring index increased to a weak 48.3 from 47.1 in January.

NORTH DAKOTA
The North Dakota RMI for February decreased to a regional high of 78.9 from 83.3 in January. The farmland-price index advanced to 86.4 from 85.2 in January. North Dakota's new-hiring index decreased to 75.1 from 78.3 in January.

SOUTH DAKOTA
The February RMI for South Dakota improved to 54.1 from January's 53.5. The farmland price index decreased to 65.0 from 71.0 in January. South Dakota's new-hiring index for February advanced to 51.1 from 50.3 in January.

WYOMING
The February RMI for Wyoming declined to 54.1 from 54.8 in January. The February farmland and ranchland price index decreased to 64.6 from 70.5 in January. Wyoming's new-hiring index climbed above growth neutral with a February reading of 51.9 which was up from 51.0 in January.

MAIN$TREET ON YOUR $TREET

COLORADO
For a fifth straight month, Colorado's Rural Mainstreet Index (RMI) moved above 50.0. The February RMI dipped to 61.1 from 64.1 in January. The farmland and ranchland price index slipped to 70.2 from January's 70.6. Colorado's hiring index for February expanded to 54.6 from January's 50.0.

ILLINOIS
For a fifth consecutive month, the RMI for Illinois moved above growth neutral. The February index im-proved slightly to 61.4 from January's 61.3. Farmland prices tumbled to a healthy 71.2 from January's 76.7. The state's new-hiring index increased to 55.3 from 54.1.

IOWA
The February RMI for Iowa advanced to 59.8 from January's 59.0. The farmland-price index declined to 70.4 from 75.4 in January. Iowa's new-hiring index for February improved to 54.7 from January's 53.2.

THE BULLISH NEWS

- Gasoline prices dropped this month as West Texas intermediate oil prices fell below $90 per barrel.
- Nonfarm payroll employment rose by 230,000 in February and the unemployment rate dipped to 7.7% from 7.9%.
- The S&P/Case-Shiller Home Price Indices for December, showed home prices rose 6.8% in the 12 months ending in December 2012.
- The Conference Board Consumer Confidence Index rebounded in February as the shock effect caused by the fiscal cliff uncertainty and payroll tax increase faded.
- Both the national and Creighton purchasing management indices (PMI) for February as in past months point to im-proving growth in the months ahead.

THE BEARISH NEWS

- Same store sales continue to run at about a 2.5% to 3.0%, year-over-year growth. This is not good.
- The US trade deficit widened to $44.4 billion in January as exports dropped and oil imports rose.

WHAT TO WATCH

- **Purchasing Management Indices:** On April 1, Creighton releases its regional leading economic indicator (PMI) and the national Institute for Supply Management releases its national PMI. A large increase would be very bullish for the economy and "seal the deal" on higher long-term interest rates.
- **Jobs:** On Friday April 5, the U.S. Bureau of Labor Statistics (BLS) will release the employment report for March. Another strong report will like March's will mean higher interest rates sooner.
- **Retail sales:** Around the middle of each month the U.S. Census Bureau releases its retail sales data for the previous month. The consumer is still under water. We need to see monthly growth of 0.7%+.

THE OUTLOOK

FROM GOSS:

- The U.S. Department of Energy is considering 16 applications for terminals to export American natural gas to energy-hungry countries such as Japan, Approval of these applications will be a very important step to help insure long-run U.S. economic growth.
- I expect long-term interest rates to rise by as much as 1% by the end of the summer.
- Oil and gasoline prices will move significantly lower by the end of summer.

OTHER FORECASTS:

- National Association of Business Economics. "NABE panelists expect real GDP to grow by 2.4% from the fourth quarter of 2012 to the fourth quarter of 2013 and to grow by 3% for 2014," said Dr. Nayantara Hensel, Chair of the NABE Outlook Survey Committee and Professor of Industry and Business at National Defense University. "Over 95% of the panelists believe that growth in real GDP in 2013 is likely to be negatively affected by uncertainty surrounding the US fiscal imbalances and issues linked to the continuing resolution, sequestration, and the debt ceiling. Almost 60% of those surveyed suggest that sequestration will occur in either partial form or full form on March 1. Moreover, they forecast that government consumption expenditures and gross investment will decline by 1% in 2013 and will be followed by a milder 0.2% decline in 2014. They also expect that real personal consumption expenditures will continue last year's 1.9% growth rate in 2013 and then accelerate to 2.5% growth in 2014. Panelists suggest strong growth in residential invest-ment, housing starts, and home prices."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Iowa Senator. Tom Harkin plans to reintroduce his transactions tax. It is expected to generate new taxes of $350 billion over 10 years. The Iowa Democrat and other lawmakers announced recently that they're making a fresh run at a transaction tax on Wall Street trades. For every $100 in trades, the tax would be three cents. This will be a "slippery slope" with the rate growing as Washington's spending needs expand. In the end, it will punish the financial sector and retirement accounts.

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