THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

March 2014

Affordable Care Act (ACA), Social Security and Medicare: Shifting Income from Young to Old

More than 25 percent of the U.S. population (including President Obama) was born between 1946 and 1964. U.S. society has made, and continues to make, economic promises to these baby boomers that must be ultimately shouldered by the nation's youth. Not only are the 25 percenters leaving the workforce at very high rates, (consuming instead of producing), they are draining the U.S. Treasury via higher Social Security (SS) benefits and greater Medicare spending. Over the past decade, SS outlays soared by 70 percent and Medicare expenditures rocketed by 135 percent, enlarging the nation's debt to $16.5 trillion. This debt, which is the largest in the galaxy and more than 100 percent of GDP, will ultimately be paid by the 60 percenters (those born after 1964) via higher taxes. Furthermore, the ACA is charging higher insurance rates for the young and healthy to subsidize the insurance coverage for citizens born before 1965 who tend to be less healthy. For example, Forbes estimates that a 27 year old male will sustain an insurance premium increase of 30% more than that faced by individuals over 64. The U.S. should take steps to reduce this mammoth wealth transfer from young to old by: (1) raising the SS retirement age 2 months per year until reaching 70 years of age; (2) increasing the Medicare eligibility age from 65 to 67 and; (3) cutting the yearly SS inflation adjustment; and (4) adjusting ACA premiums for age, or likely health care costs. By slowing the growth in SS and Medicare spending and by reducing ACA subsidies for older Ameri-cans, the U.S. would avoid the stagnation and looming tax burdens for the nation's youth. In 2012, 40 percent of U.S. males ages 18 to 31 lived with their parents. Federal spending policy should help junior exit the basement, not exile even more of our youth to the cellar. Ernie Goss.

MAINSTREET RESULTS

Rural Mainstreet Economy Weakens for February
Farmland Prices Expected to Decline for 2014

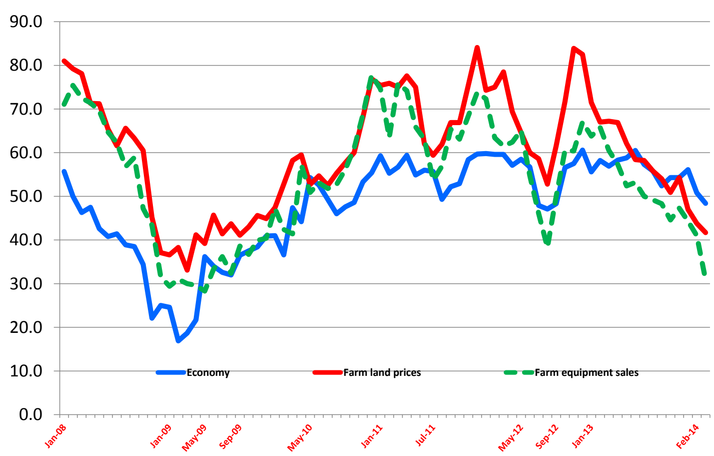
Tables 1 below summarizes the findings from this month's survey with an index above 50.0 indicating growth and an index below 50.0 signifying weakness. [Index > 50.0 indicates expansion]

Table 1: The Mainstreet Economy	Feb. 2013	Jan. 2013	Feb. 2014
Area Economic Index	58.2	50.8	48.4
Loan volume	46.7	57.8	50.0
Checking deposits	67.2	68.2	61.7
Certificate of deposits	47.6	41.6	42.5
Farm land prices	67.0	43.8	41.7
Farm equipment area sales	65.8	41.0	30.9
Home sales	65.0	49.3	53.4
Hiring in the area	54.9	53.8	54.3
Retail Business	46.6	46.2	40.1
Economy 6 months from now	51.7	49.2	47.4

Survey Results at a Glance:

- Rural Mainstreet Index indicates slight economic downturn for February. Harsh weather was a factor.
- Bank CEOs expect farmland prices to decline by 3.2 percent over the next year.
- Farmland price index sinks to lowest level since September 2009.
- Farm equipment sales index falls to lowest level since May 2009.

Rural Mainstreet Economy January '08 – February '14



The Rural Mainstreet economy moved into negative growth territory according to the February 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 48.4 from 50.8 in January and December's much healthier to 56.1.

The overall index for the Rural Mainstreet Economy indicates that areas of the nation highly dependent on agriculture and energy are losing economic steam. Despite year-over-year declines in agriculture commodity prices, bankers expect even more weakness for 2014. Almost nine of 10, or 89.5, percent of the bank CEOs consider lower agriculture commodity prices as the biggest threat to the 2014 economy. These softer prices have had, and will likely continue to have, negative impacts on the Rural Mainstreet economy.

At least a portion of the weaker numbers for February can be attributed to unusually harsh weather. Pete Haddeland, CEO of the First National Bank in Mahnomen, Minn., said, "We have seen a slowdown due to the cold winter and high heating costs."

Farming and ranching: The farmland and ranchland-price index for February decreased to 41.7, its lowest level since September 2009, and down from last month's 43.8. This is the third straight month that the farmland and ranchland-price index has moved below growth neutral.

Farm equipment sales remained below growth neutral for the eighth straight month. The February index sank to a weak 30.9, the lowest reading since May 2009, and down from January's 41.0. Agriculture equipment manufacturers continue to experience strong sales abroad. However, equipment dealers and farm equipment manufacturers selling domestically are experiencing pullbacks in sales and production.

This month bankers were asked how much they expected farmland prices to change in the next year. On average bankers predicted a decline of 3.2 percent for farmland prices for 2014. Bankers remain pessimistic in terms of farmland price growth. With the Federal Reserve continuing to withdraw their economic stimulus, rising interest rates are expected to put downward pressures on agriculture commodity prices and farmland prices.

Larry Winum, CEO of Glenwood State Bank in Glenwood, Iowa, said, "Not surprisingly, the Federal Reserve of

Chicago reports that Iowa farmland values declined 1percent in the fourth quarter of 2013. With commodity prices down, this trend most likely will continue." Winum also indicated that with farm income down for 2013, "Some farmers may come up a little short of covering their operating debt, and that will require more scrutiny by farmers and bankers as they plan for operational needs in 2014."

Banking: The loan-volume index declined to 50.0 from 57.8 in January. The checking-deposit index sank to a still solid 61.7 from January's 68.2, while the index for certificates of deposit and other savings instruments increased to 42.5 from January's 41.6.

Hiring: Rural Mainstreet businesses continue to hire. The February hiring index advanced to 54.3 from 53.8 in January. While the farm economy has clearly slowed, businesses on Rural Mainstreet continue to expand their payrolls.

Confidence: The confidence index, which reflects expectations for the economy six months out, fell to 47.4 from 49.2 in January. The negatives of soft agriculture commodity prices more than offset the positives from passage of the 2014 Farm Bill on the economic outlook.

Home and retail sales: The February home-sales index climbed to 53.4 from January's weaker 49.3. The February retail-sales index plunged to 40.1 from January's fragile 46.2. Bad weather across the region restrained retail sales significantly for the month. James Shafer, CEO of The First National Bank in Tremont, Ill., reported, "Severe, continuous winter weather has had a negative impact on retail, home sales, and employment."

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
After moving above growth neutral for 16 straight months, Colorado's Rural Mainstreet Index (RMI) sank below the 50.0 threshold, slipping to 48.6 from January's 51.0. The farmland and ranchland-price index tumbled to 39.2 from January's 41.0. Colorado's hiring index for February rose slightly to 51.8, from January's 51.4.

ILLINOIS
After moving above growth neutral for 15 straight months, the RMI for Illinois declined below 50.0 for the second straight month. The index decreased to 49.0 from 49.7 in January. The Illinois farmland-price index sank to 29.9 from January's 31.7. The state's new-hiring index improved slightly to a still weak 44.5 from 44.0 in January.

IOWA
The February RMI for Iowa declined to 48.4 from January's 50.8. The farmland-price index for February dipped to 36.3 from January's 38.1. Iowa's new-hiring index for February rose to 49.6 from February's 49.1.

KANSAS
The Kansas RMI for February dipped to 49.8 from 52.2 in January. The farmland-price index for February declined to 54.4 from January's 56.2. The state's new-hiring index expanded to 64.1 from January's 63.6.

MINNESOTA
The February RMI for Minnesota fell to 47.6 from January's 48.8. Minnesota's farmland-price index for February was unchanged from January's 50.6. The new-hiring index rose to 67.2 from 66.7 in January.

MISSOURI
The February RMI for Missouri slumped to 50.3 from January's 52.7. The farmland-price index for February declined to 64.7 from 66.5 in January. Missouri's new-hiring index advanced to 72.3 from 71.8 in January.

NEBRASKA
After 12 straight months of readings above growth neutral 50.0, Nebraska's Rural Mainstreet Index sank to 48.8 from January's 51.2. The farmland-price index for February dipped to 42.6 from 44.4 in January. Ne-braska's new-hiring index declined to 52.2 from January's 54.1.

NORTH DAKOTA
The North Dakota RMI for February declined to 54.7 from January's 57.1. The farmland-price index declined to 63.2 from 66.3 in January. North Dakota's new-hiring index rose to 71.1 from January's 65.0.

SOUTH DAKOTA
The February RMI for South Dakota fell to 48.9 from January's 51.3. The farmland-price index for February sank to 44.3 from 46.1 in January 51.6. South Dakota's new-hiring index for February fell to 52.5 from January's 55.5.

WYOMING
The February RMI for Wyoming sank to 48.7 from 49.1 in January. The February farmland and ranchland-price index sank to 37.2 from January's 38.9. Wyoming's new-hiring index for February improved slightly to 50.2 from January's 49.8.

THE BULLISH NEWS

- For February, Creighton University's survey of supply managers and the national survey of supply managers point to improving but slow growth for the first half of 2014.
- Government spending declined for the final quarter of 2013.
- Housing prices continue to grow at very strong rates (13% year-over-year). While this is a very healthy signal, housing price growth in getting too far ahead of economic fundamentals.

THE BULLISH NEWS

- U.S. GDP growth for the final quarter of 2013 was revised to 2.4% from initial reading of 3.2%.

- Too low inflation, or disinflation, threatens the EuroZone economy. At 0.8% CPI growth, the EUZone must move for fundamental economic reforms that will encourage work and discourage non-work. Think Japan.

WHAT TO WATCH

- **Jobs:** On Friday April 4, the U.S. Bureau of Labor Statistics (BLS) will release employment report for March. Strong job additions (above 200,000) will result in long term interest rates rising more quickly.

- **Gold Prices. Watch Daily:** Since January 1, 2014, gold prices have risen by more than 10%. If inflationary pressures continue to advance and global risks mount, gold will become an even better bet.

- **CPI:** On March 18, the Bureau of Labor Statistics releases consumer price indices for February. A monthly increase of 0.2% or more will encourage the Fed to maintain and potentially reduce its $10 billion monthly bond buying program. It will point to higher long-term interest rates. No change in short-term interest rate.

THE OUTLOOK

FROM GOSS:

- The Chinese to continue to weaken their currency in order to bolster waning growth by stimulating exports. This is going to produce a lot of harsh rhetoric from DC politicians.

- Mortgage rates to continue to move higher, albeit at a slow pace

- Inflationary pressures to rise in the months ahead but to a still modest pace or approximately 2.2% annually.

OTHER FORECASTS:

- National Association of Business Economics (January 2014).""Respondents to the most recent NABE Eco-nomic Policy Survey generally agree about monetary policy, but there is no clear consensus about most fiscal issues," said NABE Policy Survey Committee Chair Jay Bryson, Global Economist at Wells Fargo Securities. "A majority of the NABE Policy Survey panel characterizes monetary policy as 'about right' at present, and most survey respondents believe that quantitative easing has been 'a success.' Only a small percentage of respondents expect the Federal Reserve will fully wind down its purchases of Treasury and mortgage securities before the fourth quarter of 2014. Most panelists expect the Federal Reserve to raise interest rates sometime in 2015."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Congress learned nothing from Hurricane Sandy. The National Flood Insurance Program is $24 billion under-water due to undercharging high risk homeowners for flood insurance. Instead of raising premiums on risky homes built by the "rich" on the nation's coasts, Senator Landreiu of Louisiana proposes to cap premium in-creases to the point that taxpayers will pick up the tab for losses connected to this risky building activity.

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