THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

March 2015

Presidential Budget Deficits, 1930-2014: Both Parties Big Spenders: Democrats Big Taxers

Since 1930, the federal government has spent a total of $71.5 trillion and collected $59.9 trillion in taxes, thus adding $11.6 trillion to the national debt, not including interest. As a share of gross domestic product (GDP), the deficit was 3.3% for the full 84-year period. In terms of party affiliation, Democrats expanded the debt by an average 3.1%, while Republicans boosted the debt by a higher 3.5% average. As a share of GDP, both Democrats and Republicans spent an average of 20.3%, but Democrats levied higher taxes at 17.2% while Republicans imposed a lower 16.8% in taxes. In all cases, it was assumed that the incoming president does not own the deficit for his first year of service. Among the 13 presidents serving during this period, the top deficit creating presidents were Roosevelt and Obama while the top surplus generating presidents were Clinton and Truman. Clinton and Carter collected the largest percentage of taxes while Roosevelt and Obama spent the most heavily among the 13 presidents. With no budget surpluses in sight and 10,000 baby boomers retiring each day, the 2015 national debt of $18.1 trillion, or 103% of GDP, presents a real challenge for younger generations. With current federal tax collections below average, and federal spending above the 84-year average, the nation's debt level will continue to grow as the share of the population bearing the burden declines. Without tax reform and spending restraint, Gen-Xers and Millenniums will face higher taxes, elevated interest rates, rising inflation, or all three of these "bads." Former Colorado governor Richard Lamm sums it up quite well saying "Deficits are when adults tell the government what they want-and the kids pay for it.." Ernie Goss.

MAINSTREET RESULTS

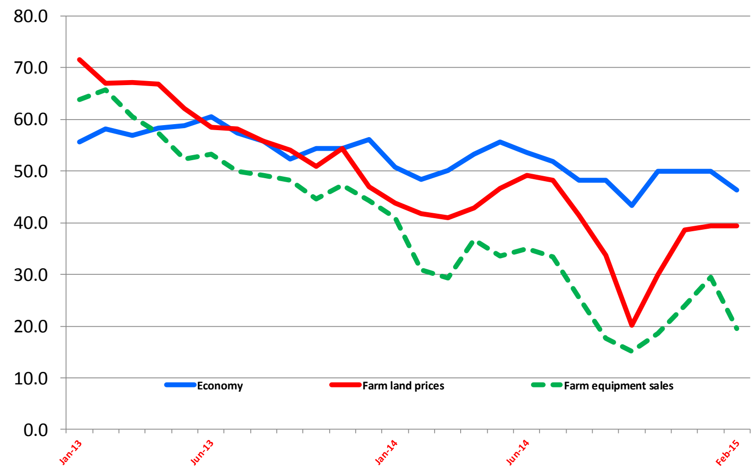
February Rural Mainstreet Index Turns Negative: Farm Equipment Sales and Farmland Prices Decline Again

Table 1: The Mainstreet Economy	Feb 2014	Jan 2015	Feb 2015
Area Economic Index	48.4	50.9	46.4
Loan volume	50.0	62.1	46.4
Checking deposits	61.7	64.8	57.3
Certificate of deposits	42.5	42.6	41.8
Farm land prices	41.7	39.4	39.4
Farm equipment area sales	30.9	29.5	19.5
Home sales	53.4	51.7	50.9
Hiring in the area	54.3	52.8	56.5
Retail Business	40.1	48.1	43.7
Economy 6 months from now	47.4	43.6	41.5

Survey Results at a Glance:

- The Rural Mainstreet Index fell below growth neutral for February.
- Farmland prices sank for the 15th straight month.
- Approximately 22.2 percent of farmland sales were cash sales, almost unchanged from October 2014.
- February marked the 19th straight month that farm equipment sales declined.
- Banker's economic outlook sank for the month. .

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



The Creighton University Rural Mainstreet Index for February slumped from January's tepid 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, sank to 46.4 in February, which is down significantly from January's 50.9. Weaker exports and lower energy and grain prices continue to weigh on the rural economy that is dependent on agriculture and energy.

Farming and ranching: The farmland and ranchland-price index for February was unchanged from January's weak 39.4. Even though crop prices have stabilized, demand for farmland remains weak pulling agricultural land prices down by an estimated annualized rate of 6 percent to 8 percent. This is the 15th straight month the index has moved below growth neutral.

Even though farm income has weakened, more than one-fifth, or 22.2 percent, of farmland sales are for cash according to bankers in February. This is little changed from 23.3 percent recorded in October of 2014.

The February farm-equipment sales index plummeted to 19.5 from 29.5 in January. The index has been below growth neutral for 19 straight months. Farmers have become very cautious regarding equipment buying even though their purchases of seeds and other inputs have remained solid.

This month bankers were asked to estimate the 2015 change in farm equipment sales for their geographic area. On average, a 14.4 percent decline in equipment sales is expected by the bank CEOs. Approximately 60 percent of the bankers expect reductions of more than 15 percent.

Banking: The February loan-volume index plunged to 46.4 from January's 62.1. The checking-deposit index sank to 57.3 from 64.8 in January, while the index for certificates of deposit and other savings instruments fell to a very weak 41.5 from last month's 42.6.

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 February hiring index jumped to 56.5 from January's 52.8. We have yet to measure any significant decline in employment for the energy sector in the region. I expect that to change in the months ahead as lower oil prices work their way through the economy. Year-over-year job growth for the region is now approximately 1.4 percent, which is unchanged from last month, but still well above the historic average.

Confidence: The confidence index, which reflects expectations for the economy six months out, slipped to 41.5 from January's 43.6. Global economic turmoil along with low energy and farm prices have negatively affected the outlook of bank CEOs in energy and agriculture dependent portions of the region.

Home and retail sales: The February home-sales index climbed to 50.9 from January's 45.3. The February retail-sales index inched up to a frail 43.7 from 43.6 in January.

Jeff Bonnett, president of Havana National Bank in Havana, Ill., reported that many of his customers commute to cities for employment. "The lower fuel prices here in early 2015 have been very helpful to these folks, which has helped the local restaurants and economy."

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 rising above growth neutral for 11 straight months, Colorado's Rural Mainstreet Index (RMI) declined below the 50.0 threshold. The state's RMI slumped to 47.2 from January's 50.9. The farmland and ranch-land-price index rose to 60.8 from 50.1 in January. Colorado's hiring index for February climbed to a healthy 60.8 from 62.3 in January. Colorado Rural Mainstreet job growth for the past 12 months was 2.2 percent.

ILLINOIS
The RMI for Illinois decreased to 46.3 from 50.5 in January. The Illinois farmland-price index expanded to 38.7 from 38.2 in January. The new-hiring index rose to 55.0 from 51.3 in January. Illinois Rural Mainstreet job growth for the past 12 months was 1.3 percent.

IOWA
The RMI for Illinois decreased to 46.3 from 50.5 in January. The Illinois farmland-price index expanded to 38.7 from 38.2 in January. The new-hiring index rose to 55.0 from 51.3 in January. Illinois Rural Mainstreet job growth for the past 12 months was 1.3 percent.

KANSAS
The Kansas RMI for January plummeted to 45.1 from January's 49.6. The state's farmland-price index dipped to 37.2 from January's 38.9. The new-hiring index for Kansas climbed to 53.9 from 51.9 in January. Kansas Rural Mainstreet job growth for the past 12 months was 0.1 percent.

MINNESOTA
The January RMI for Minnesota sank to 44.6 from January's 51.0. Minnesota's farmland-price index declined to 38.5 from 42.1 in January. The new-hiring index for the state advanced to 54.9 from January's 54.4. Minnesota Rural Mainstreet job loss for the past 12 months was -0.4 percent.

MISSOURI
The February RMI for Missouri plummeted to 47.5 from 54.1 in January. The farmland-price index declined to 53.5 from January's 63.7. Missouri's new-hiring index decreased to 66.8 from 71.7 in January. Missouri Rural Mainstreet job growth for the past 12 months was 2.5 percent.

NEBRASKA
The Nebraska RMI for February slumped to 44.4 from 49.0 in January. The state's farmland-price index slipped to 33.3 from 34.0 in January. Nebraska's new-hiring index grew to 50.7 from January's 47.9. Nebraska Rural Mainstreet job loss for the past 12 months was -0.6 percent.

NORTH DAKOTA
The Nebraska RMI for February slumped to 44.4 from 49.0 in January. The state's farmland-price index slipped to 33.3 from 34.0 in January. Nebraska's new-hiring index grew to 50.7 from January's 47.9. Nebraska Rural Mainstreet job loss for the past 12 months was -0.6 percent.

SOUTH DAKOTA
The February RMI for South Dakota declined to 45.1 from January's 49.4. The farmland-price index for February decreased to 35.3 from last month's 36.2. South Dakota's new-hiring index expanded to 52.3 from 49.7 in January. South Dakota Rural Mainstreet job growth for the past 12 months was 0.1 percent.

WYOMING
The February RMI for Wyoming fell to 47.1 from last month's 50.8. The February farmland and ranchland-price index ticked up slightly to 41.7 from January's 41.6. Wyoming's new-hiring index climbed to 57.4 from January's 54.0. Wyoming Rural Mainstreet job growth for the past 12 months was 0.1 percent.

THE BULLISH NEWS

- Total employment rose by 257,000 in January, and the unemployment rate was little changed at 5.7%. Job gains occurred in retail trade, construction, health care, financial activities, and manufacturing.
- Creighton's leading economic indicator for the 9-state Mid-American region moved to a solid 57.0 for February.
- In the 12 months ending in Dec. 2014, the Case-Shiller index indicated that average U.S. home prices rose by 4.6%. This is good news but I am concerned that the growth in the index is coming down too fast.

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THE BEARISH NEWS

- The Consumer Price Index declined 0.7% in January. Over the last 12 months, the all items index decreased 0.1%. Normally this might be considered good news but this is well below the Federal Reserve's target 2.0%.
- The Producer Price Index (Wholesale prices) decreased 0.8% in January. Final demand prices moved down 0.2% in both December and November. The index for final demand was unchanged for the 12 months ended in January indicating little pricing power in the economy.
- Retail sales and food services sales for January fell by 0.8% from the previous month, and 3.3% higher than for January 2014.

WHAT TO WATCH

- **CPI:** On March 24, the U.S. Bureau of Labor Statistics (BLS) releases consumer prices (CPI) for February. 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. However, wage growth numbers will be more closely watched.
- **Case-Shiller Home Price Index:** On March 31, Standard & Poors will release the Case-Shiller home price index for January 2015. Growth between 4% and 5% will be a non-event. Outside this range will have impacts.
- **Wage data:** On Friday April 3, the U.S. Bureau of Labor Statistics (BLS) will release hourly wage growth numbers. Another healthy monthly gain will encourage the Federal Reserve to raise short term interest rates earlier than expected. Currently the market expects a rate hike in September 2015.

THE OUTLOOK

FROM GOSS:

- I expect housing price growth to move even lower in the months ahead.
- Global currency wars. From the Eurozone to Japan, central banks, except for the U.S. Federal Reserve, are reducing the value of their currency. This will tend to put upward pressure on the value of the U.S. dollar. A growing U.S. dollar value will tend to a) put downward pressures on agriculture commodity prices, b) reduce U.S. exports, c) increase U.S. imports, d) increase the U.S. trade deficit.

OTHER FORECASTS:

- The Conference Board Leading Economic Index® (LEI) for the U.S. was signaling all through the second half of 2014 that the economy was gaining momentum. The growth in the fourth quarter of 2014 was probably around 3 percent (annualized), boosted by strong holiday spending. Much lower oil prices (national average price now is down to about $2.20/gallon, with 16 states showing below $2.00, compared with $3.50/gallon in 2013), add to discretionary consumer spending power. More jobs and soon higher wages are making consumers more optimistic and more willing to spend. At the same time, business investment has turned more negative as lower oil prices lead to cutbacks in new investment in the energy industries. The combination of lower gasoline prices, more jobs, and soon more wages, as well as a strengthening dollar provides the means and incentive to sustained strong spending, but also lower exports and temporarily lower investment

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- Americans for Limited Government, a conservative 501 advocacy organization, is attempting to convince its members and subscriber to oppose giving President Obama fast track trade authority to negotiate the Trans-Pacific Partnership. Their position is that Congress needs to get involved in trade deals. Congressional involvement would only make a slow bureaucratic process even more unworkable, bureaucratic and burden-some.

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