THE MAINSTEET ECONOMY REPORT

"A monthly survey of community bank CEO's"

September 2015

End the Morphine Drip of Federal Reserve's Ultra-low Interest Rates

Shaken recently by stock markets across the globe, the Federal Reserve may delay moving the economy away from its emergency monetary policies begun in 2008. In the 102 years of the U.S. Feder-al Reserve's existence, this organization has never so vigorously attempted to stimulate the U.S. econo-my with what many economists consider crisis measures. Since 2008 the Fed has purchased $4.5 trillion in U.S. Treasury bonds and mortgage backed securities intended to lower long term interest rates, and boost U.S. investment and consumption. Additionally, the Fed's interest rate setting committee (the FOMC) has kept short-term interest rates at close to zero for almost seven years.

Partially as a result of these measures, U.S. stock prices collectively have climbed at a pace six times that of the U.S. inflation adjusted economy since 2011 (3.5 times the non-inflation adjusted econ-omy). And just last month, even the threat of a rate hike of ¼% slammed U.S. stock prices. However, raising interest rates at the FOMC's September 17 meeting will have several significant positive impacts. First, savers will see a "light at the end of the tunnel" in terms of interest earnings. Second, rising interest rates will encourage businesses and home buyers to invest today in new capital equipment and homes while interest rates are low. Third, it will help restore confidence in the U.S. economy that has been curbed by emergency interest rates whither. Fourth, and most importantly, it will begin the journey back to normal and sustainable interest rates.

Higher interest rates may well dampen stock prices, but the mandate of the Federal Reserve is to stimulate employment growth and promote stable prices. It is not to enrich stock market participants with price bubbles that must ultimately deflate, slowly or rapidly. Ernie Goss.

MAINSTREET RESULTS

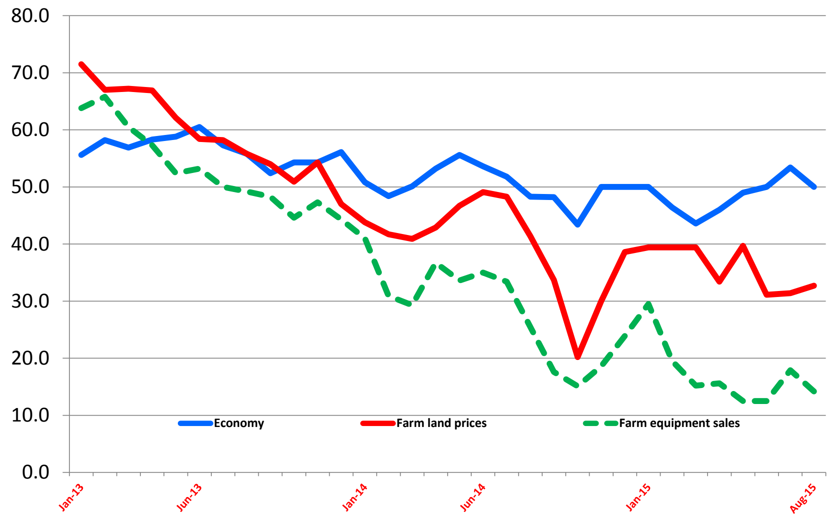
Rural Mainstreet Index Falls to Growth Neutral for August
Cash Rents Expand as Farmland Prices Slumps

Table 1: The Mainstreet Economy	Aug 2014	Jul 2015	Aug 2015
Area Economic Index	48.3	53.4	50.0
Loan volume	73.4	72.1	73.0
Checking deposits	46.7	53.4	55.0
Certificate of deposits	32.5	38.6	34.0
Farm land prices	41.4	31.4	32.7
Farm equipment area sales	25.5	17.9	14.2
Home sales	59.5	73.3	70.4
Hiring in the area	56.8	60.3	63.3
Retail Business	47.5	53.4	50.0
Economy 6 months from now	39.9	46.6	42.0

Survey Results at a Glance:

- The Rural Mainstreet Index sinks to growth neutral for August.
- Farmland prices decline for the 21st straight month, but cash rents remain strong at $263 per acre.
- On average, bankers expect farmland prices to decline by another 5.8 percent over the next 12 months.
- Housing sales expand at a healthy pace.

Rural Mainstreet Economy January '13 – August '15
Creighton University



The Creighton University Rural Mainstreet Index fell for August from July's tepid reading, according to the monthly survey of bank CEOs in rural areas of a 10-state region dependent on agriculture and/or ener-gy. **Overall:** The Rural Mainstreet Index (RMI), which ranges between 0 and 100, sank to a growth neutral 50.0 from 53.4 in July.

This is the first decline in the overall index since March of this year. Weaker conditions among businesses tied directly to agriculture and energy accounted for the downturn in the reading.

Farming and ranching: The farmland and ranchland price index for August increased slightly to 32.7 from July's 31.4. This is the 21st straight month the index has moved below growth neutral. But, as in previous months, there is a great deal of variation across the region in the direction and magnitude of farmland prices.

This month Creighton asked bankers to indicate project the change in farmland prices over the next year. On average, bankers expect a decline of 5.8 percent over the next year. Last August when we asked this same question, a 4.8 percent decrease was expected.

Bank CEOs were also asked to estimate current cash rents for non-pasture cropland. On average, bankers reported $263 per acre, which is up from $258 reported last year at this time. Additionally, bankers re-ported an increase the share of farmland financed from 74 percent last August to 77 percent this month.

The August farm equipment-sales index sank to a very weak 14.2 from July's 17.9, but was up from June's record low 12.5. With farm income expected to decline for a second straight year, farmers remain very cautious regarding the purchase of agricultural equipment.

Banking: The August loan-volume index climbed to 73.0 from 72.1 in July. The checking-deposit index rose to 55.0

from July's 53.4, while the index for certificates of deposit and other savings instruments dropped to 34.0 from July's 38.6.

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 August hiring index increased to a strong 63.3 from 60.3 in July. Rural Mainstreet businesses continue to hire additional workers, while rural Mainstreet communities are growing jobs at a solid annual pace of approximately 1 percent, primarily in businesses not linked to agriculture or energy.

Confidence: The confidence index, which reflects expectations for the economy six months out, slumped to 42.0 from 46.6 in July. Declines for agricultural commodity and energy prices pushed bankers' eco-nomic outlook lower for the month.

Home and retail sales: The August home-sales index declined to a strong 70.4 from July's 73.3. The Au-gust retail-sales index decreased to 50.0 from 53.4 in July. Home sales on Rural Mainstreet have been very healthy over the last several months.

Each month, community bank presidents and CEOs in nonurban agriculturally and energy-dependent por-tions 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 por-tions of the nation. The Rural Mainstreet Index (RMI) is a unique index covering 10 regional states, fo-cusing 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 Inde-pendent Community Banks of America, created the monthly economic survey in 2005.

MAIN$TREET ON YOUR $TREET

COLORADO
The state's Rural Mainstreet Index (RMI) dipped to 51.5 from July's somewhat stronger 53.2. The farmland and ranchland price index expanded to 38.4 from 12.7 in July. Colorado's hiring index for August advanced to a healthy 65.5 from July's 52.9.

ILLINOIS
The August RMI for Illinois declined to 50.0 from 53.6 in July. The farmland-price dropped to 29.5 from July's 31.6. The state's new-hiring index increased to 62.0 from July's 60.5.
Iowa: The August RMI for Iowa dropped to 53.4 from July's 56.6. Iowa's farmland-price index for Au-gust rose to 44.0 from July's 43.9. Iowa's new-hiring index for August jumped to 67.8 from 65.4 in July.

KANSAS
The Kansas RMI for August slid to 49.8 from July's 52.3. The state's farmland-price index for August increased to 27.8 from July's 24.6. The new-hiring index for the state expanded to 61.3 from 57.7 in July.

MINNESOTA
The August RMI for Minnesota fell to 48.4 from July's 53.9. Minnesota's farmland-price index declined to 33.7 from 37.4 in July. The new-hiring index for the state declined to a healthy 58.2.

MISSOURI
The August RMI for Missouri declined to 43.2 from 47.1 in July. The farmland-price index grew to 29.5 from July's 13.9. Missouri's new-hiring index decreased to 51.3 from July's 53.4.

NEBRASKA
The Nebraska RMI for August slumped to 48.4 from 50.1 in July. The state's farmland-price index fell to 19.6 from July's 21.4. Nebraska's new-hiring index advanced to 58.0 from 56.4 in July. According to Jon Schmaderer, CEO of Tricounty Bank in Stuart, "The high level of moisture in July-August has substantially reduced the cost of irrigation this season."

NORTH DAKOTA
The North Dakota RMI for August decreased to 47.1 from 50.6 in July. The farmland-price index fell to 24.8 from 36.5 in July. North Dakota's new-hiring index declined to 60.1 from July's 62.4.

SOUTH DAKOTA
The August RMI for South Dakota slipped to 55.1 from July's 56.7. The farmland-price index rose to 47.2 from 43.0 in July. South Dakota's new-hiring index climbed to 69.1 from 65.0 in July.

WYOMING
The August RMI for Wyoming sank to 49.2 from last month's 52.5. The August farmland and ranchland-price index expanded to 47.2 from July's 27.9. Wyoming's new-hiring index climbed to 60.9 from July's 59.0.

THE BULLISH NEWS

- Many economists argued that the August employment report sent mixed messages. I think not. The nation added 173,000 new jobs, the unemployment rate declined to 5.1% and wages expanded by 2.2% from August 2014. It was a solid report.
- The Case-Shiller home price index for June 2015 was 4.5% above that for June 2014.
- The July U.S. trade deficit declined to $41.9 billion, its lowest level in five months.

THE BEARISH NEWS

- The U.S. participation rate, the percent of individuals 16 years and older in the labor force, for August stood at a 38-year low 62.6% with 94,031,000 Americans out of the workforce.
- The June trade U.S. trade deficit rose to 7.1% from May to $48.3 billion.
- According to the Case-Shiller home price index, U.S. home prices fell 0.2% from April to May of this year.

WHAT TO WATCH

- **Federal Reserve:** On Sept. 17, the Fed will announce any change in short term interest rates. A 25 basis point (¼%) will be baked into markets by then. Pay special attention to Yellen's language in the press release.

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- **PMIs:** On Oct. 1, the first business day of October, Creighton and the National Institute for Supply Management will release regional and national PMIs for September. Both PMIs are moving down. A national PMI below growth neutral will be bearish for stocks but bullish for bond prices. Also note the inflation gauges from the reports.
- **Consumer Price Index (CPI):** On September 16, the Bureau of Labor Statistics will report August's CPI. A strong reading (annualized growth of more than 3%) will "seal the deal" for a rate hike from the Federal Reserve the next day.

THE OUTLOOK

FROM GOSS:

- I expect a 25 basis point (¼%) increase in short term interest hike from the Federal Reserve on Sept. 17.
- I expect lower U.S. fuel prices will to begin boosting consumer spending in the fourth quarter of this year.
- Business conditions for U.S. and Mid-America manufacturers to remain weak, especially firms linked to agriculture and energy.

OTHER FORECASTS:

- Conference Board (September 2015): "Downside risks from global developments and weak investment activity remain. Gross domestic product grew at a 2.3 percent annual pace in the spring, up from the first quarter's 0.6 percent pace. While GDP expanded moderately, the bounce back from winter months was muted and the overall pace of 1.5 percent in the first half of 2015 was slower than the average pace of 2 percent in 2012-2014. Economic growth in the second half of 2015 is expected to remain on a moderate path of 2.4 percent, which is slightly above trend. While consumer spending is likely to power the economy supported by ongoing reduction in labor market slack and low gasoline prices, large first half inventory build is a negative for second half growth. Moderate growth with low price increases but potential of rising labor costs is a recipe for weak profit growth thus limiting capital investment. Greater volatility in oil prices at the lower end of the range solidify gains for consumers, but will also continue to weigh on energy investment activity. And slow global economy means slow export growth even if the effects of stronger dollar begin to run their course."

GOSS EGGS (RECENT DUMB ECONOMIC MOVES)

- The recent stock market manipulation by the Peoples Bank of China (PBoC) shows why markets make better decisions than individuals. The more the PBoC tries to intervene with such ill-conceived actions as buying stocks, the more ominous the situation becomes. Take note, U.S. Congress, markets allocate resources more effectively than politicians and economists.

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